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**In the  
Supreme Court of the United States**

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**MUNIAUCTION, INC.,  
d/b/a GRANTSTREET GROUP,**

*Petitioner,*

**vs.**

**THOMSON CORPORATION d/b/a  
THOMSON FINANCIAL LLC AND/OR THOMSON  
FINANCIAL MUNICIPALS GROUP  
and i-DEAL, LLC,**

*Respondents.*

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**On Petition For A Writ Of Certiorari To  
The United States Court Of Appeals  
For The Federal Circuit**

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**PETITION FOR A WRIT OF CERTIORARI**

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## **QUESTIONS PRESENTED**

1. Whether the Federal Circuit was wrong to set aside more than a century of legal precedent by effectively over-ruling the doctrine of “joint infringement,” thereby defeating thousands of properly-issued patents, by creating a new standard in which a company which combines with another to facilitate patent infringement can escape liability, unless it also “directed or controlled” the other entity’s infringing acts.
2. Whether this case satisfies the requirements for an order granting certiorari, vacating judgment and remanding to the Federal Circuit with instructions for a new trial on the issue of joint infringement, in view of the undisputed factual evidence of “direction or control” which the Federal Circuit effectively disregarded in MuniAuction, Inc. v. Thomson, 532 F.3d 1318 (Fed. Cir. 2008).

**CORPORATE DISCLOSURE STATEMENT**

This Petition is filed on behalf of Petitioner Grant Street Group, Inc., f/k/a MuniAuction Inc. and still doing business as MuniAuction, Inc. The names of Respondents (as understood by Petitioner) are shown in the caption.

Pursuant to this Court's Rule 29.6, undersigned counsel states that there are no parent corporations or publicly-held companies that own 10% or more of the stock of Grant Street Group, Inc., the party represented by me.

**TABLE OF CONTENTS**

	<i>Page</i>
QUESTIONS PRESENTED .....	i
CORPORATE DISCLOSURE STATEMENT .....	ii
TABLE OF APPENDICES .....	vi
TABLE OF AUTHORITIES .....	ix
OPINIONS BELOW .....	1
JURISDICTIONAL STATEMENT .....	1
STATUTORY PROVISIONS INVOLVED .....	2
I. STATEMENT OF THE CASE .....	2
A. The Law Of “Joint Infringement” As Of The 2006 Trial .....	2
B. “Joint Infringement” From 1871 To 2006 .....	4
C. The Federal Circuit’s Vacillating Decisions Relating To “Joint Infringement” Since The 2006 Trial In This Case ...	7
D. District Court Decisions Since <i>MuniAuction</i> Reveal Confusion .....	14



## Contents

	<i>Page</i>
II. REASONS FOR ALLOWANCE OF A WRIT OF CERTIORARI . . . . .	19
A. The Federal Circuit's Vacillation About "Joint Infringement" Has Befuddled District Courts, Necessitating Resolution By This Court . . . . .	20
B. The Federal Circuit's <i>MuniAuction</i> Decision Encourages Deliberate Defiance Of Valid U.S. Patents . . . . .	21
C. Inconsistent Application Of The New <i>MuniAuction</i> Standard Has Made It Impossible To Assign Any Meaningful Scope To Method Patent Claims . . . . .	26
D. Retroactive Application Of The <i>MuniAuction</i> "Joint Infringement" Standard Should Be Barred By This Court's Decisions Concerning Retroactivity . . . . .	28
1. "Reliance" . . . . .	32
2. "Well-Established Legal Rule" . . . . .	32

*Contents*

	<i>Page</i>
E. "Proper Claim Drafting" Is Not The Issue Here . . . . .	35
III. A GVR ORDER REMANDING THIS CASE FOR A NEW TRIAL IS APPROPRIATE . . .	36
IV. CONCLUSION . . . . .	42

---

## TABLE OF APPENDICES

	<i>Page</i>
Appendix A – Orders of the United States Court of Appeals for the Federal Circuit Granting Respondents’ Motion for a Stay of Injunction Pending Appeal Dated September 28, 2007 and August 2, 2007	1a
Appendix B – <u>MuniAuction, Inc. v. Thomson Corporation</u> , 532 F.3d 1318 (Fed. Cir. 2008) - Opinion of the United States Court of Appeals for the Federal Circuit Decided July 14, 2008	7b
Appendix C – Order of the United States Court of Appeals for the Federal Circuit Denying Petition for Rehearing Dated September 25, 2008	38c
Appendix D – Portions of Jury Instructions Given in <u>MuniAuction, Inc. v. Thomson Corporation</u> - Civil Action No. 01-1003 in the United States District Court for the Western District of Pennsylvania Dated October 4, 2006	41d
Appendix E – Jury Verdict in <u>MuniAuction, Inc. v. Thomson Corporation</u> - Civil Action No. 01-1003 in the United States District Court for the Western District of Pennsylvania Dated October 5, 2006	45e

*Appendices*

	<i>Page</i>
Appendix F – Order for Permanent Injunction of the United States District Court for the Western District of Pennsylvania Date Docketed July 31, 2007	51f
Appendix G – <u>MuniAuction, Inc.</u> v. <u>Thomson Corp.</u> , 502 F.Supp.2d 477 (W.D. Pa. 2007) - Memorandum and Order of the United States District Court for the Western District of Pennsylvania Denying JMOL Dated July 31, 2007	53g
Appendix H – Memorandum and Order of the United States District Court for the Western District of Pennsylvania Denying Respondents' Motion for a Stay of Injunction Date Docketed August 21, 2007	95h
Appendix I – Judgment of the United States District Court for the Western District of Pennsylvania Date Docketed October 9, 2006	100i

*Appendices*

	<i>Page</i>
Appendix J – Catherine Larkin & Susan Decker, “Teva Grabs Billions Gambling on Copies of Brand Drugs,” <u><a href="http://www.boomberg.com">www.boomberg.com</a></u> , Dated December 1, 2008	102j

## TABLE OF AUTHORITIES

### FEDERAL CASES

	<i>Page</i>
<u>Aerojet-General Corp. v. Machine Tool Works</u> , 895 F.2d 736 (Fed. Cir. 1990) . . . . .	26
<u>Aro Manufacturing Co. v. Convertible Top Replacement Co.</u> , 365 U.S. 336 (1961) . . . . .	7
<u>BMC Resources, Inc. v. Paymentech, L.P.</u> , 498 F.3d 1373 (Fed. Cir. 2007) . . . . .	9, 10, 11, 12, 13, 15, 35
<u>Bullock Electric &amp; Manufacturing Co. v. Westinghouse Electric &amp; Manufacturing Co.</u> , 129 F. 105 (6th Cir. 1904) . . . . .	6
<u>Chevron Oil Co. v. Huson</u> , 404 U.S. 97 (1971) . . . . .	29, 30
<u>Collegenet, Inc. v. XAP Corp.</u> , 2006 U.S. Dist. LEXIS 49760 (D. Or. 2006) . . . . .	10
<u>Danforth v. Minnesota</u> , 128 S.Ct. 1029 (2008) . . . . .	29
<u>Dawson Chemical Co. v. Rohm &amp; Haas Co.</u> , 448 U.S. 176 (1980) . . . . .	5

## *Authorities*

	<i>Page</i>
<u>Earth Island Institute v. Ruthenbeck</u> , 2005 U.S. Dist. LEXIS 29511 (E.D. Ca. 2005) . . . .	31
<u>Emtel, Inc. v. LipidLabs, Inc.</u> , 2008 U.S. Dist. LEXIS 77597 (S.D. Tx. September 30, 2008) . . . . .	16, 17, 21
<u>General Electric Co. v. Wabash Appliance Corp.</u> , 304 U.S. 364 (1938) . . . . .	33
<u>Global Patent Holdings, LLC v. Panthers BRHC LLC</u> , 2008 U.S. Dist. LEXIS 61697 (S.D. Fla. Aug. 13, 2008) . . . . .	17, 18, 19, 20
<u>Harper v. Virginia Department of Taxation</u> , 509 U.S. 86 (1993) . . . . .	28, 30
<u>Hill v. Amazon.Com, Inc.</u> , 2006 U.S. Dist. LEXIS 3389 (E.D. Tx. 2006) . . .	7, 13
<u>Hogg v. Emerson</u> , 47 U.S. 437 (1848) . . . . .	27
<u>In re Seagate Technology, LLC</u> , 497 F.3d 1360 (Fed. Cir. 2007) . . . . .	9
<u>Johnson &amp; Johnson Associates, Inc. v. R.E. Service Co.</u> , 285 F.3d 1046 (Fed. Cir. 2002) . .	33

# *Authorities*

	<i>Page</i>
<u>KSR International Co. v. Teleflex, Inc.</u> , 127 S. Ct. 1727 (2007) .....	9
<u>kSolo, Inc. v. Catona</u> , 2008 U.S. Dist. LEXIS 95107 (C.D. Cal. November 10, 2008) .....	16, 21
<u>Lawrence v. Chater</u> , 516 U.S. 163 (1996) .....	36, 37
<u>MuniAuction, Inc. v. Thomson</u> , 532 F.3d 1318 (Fed. Cir. 2008) .....	i, vi, 1, 9, 10, 12, 13, 41
<u>MuniAuction, Inc. v. Thomson Corp.</u> , 502 F. Supp. 2d 477 (W.D. Pa. 2007) .....	vii, 1, 9, 37, 39
<u>Newell Co. v. Kenney Manufacturing Co.</u> , 864 F.2d 757 (Fed. Cir. 1988) .....	14
<u>On Demand Machine Corp. v. Ingram Industries, Inc.</u> , 442 F.3d 1331 (Fed. Cir. 2006) .....	3, 12
<u>Peerless Equipment Co. v. W. H. Miner, Inc.</u> , 93 F.2d 98 (7th Cir. 1937) .....	6



*Authorities*

*Page*

<u>Reynoldsville Casket Co. v. Hyde</u> , 514 U.S. 749 (1995) . . . . .	28, 29, 31, 32, 33
<u>Rowe International Corp. v. Ecast, Inc.</u> , 2008 U.S. Dist. LEXIS 75327 (N.D. Ill. August 25, 2008) . . . . .	15, 16
<u>Ryder v. United States</u> , 515 U.S. 177 (1995) . . . . .	30, 31
<u>Shields v. Halliburton Co.</u> , 493 F. Supp. 1376 (W.D. La. 1980) . . . . .	7, 11
<u>Wallace v. Holmes</u> , 29 F. Cas. 74 (No. 17,100) (CC Conn. 1871) . . . . .	5
<u>Warner-Jenkinson Co. v. Hilton Davis Chemical Co.</u> , 520 U.S. 17 (1997) . . . . .	7
<u>White v. Dunbar</u> , 119 U.S. 47 (1886) . . . . .	20, 27, 34

**FEDERAL STATUTES**

28 U.S.C. § 1254(a)(1) . . . . .	1
28 U.S.C. § 1295(a)(1) . . . . .	1

*Authorities*

	<i>Page</i>
28 U.S.C. § 1338(a) .....	1
28 U.S.C. § 2106 .....	36
35 U.S.C. § 1 .....	26
35 U.S.C. § 271 .....	7
35 U.S.C. § 271(a), (b) .....	2
35 U.S.C. § 271(c) .....	5
Fed.R.Civ.P. 12 .....	16
H.R. Rep. No. 82-1923 (1952) .....	6, 7
S. Rep. No. 82-1979 (1952) .....	6
H.R. Rep. No. 312, 97 <sup>th</sup> Cong., 1 <sup>st</sup> Sess. 41 (1981) .....	26, 27

**MISCELLANEOUS**

Daniel R. Cahoy, <u>Changing the Rules in the Middle of the Game: How the Prospective Application of Judicial Decisions Related to Intellectual Property Can Promote Economic Efficiency</u> , 41 Am. Bus. L.J. 1 (2003) .....	31
--	----

### OPINIONS BELOW

Petitioner MuniAuction, Inc. submits this petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit, reported at 532 F.3d 1318 (Fed. Cir. 2008) (App. 7b-37b). The Federal Circuit's Orders denying MuniAuction's Petition for Rehearing (App. 38c-40c) and granting Thomson's "emergency" motion for a stay (App. 1a-6a) are unreported. The judgment of the United States District Court for the Western District of Pennsylvania is reported at 502 F.Supp.2d 477 (W.D. Pa. 2007) (App. 53g-94g); final judgment was docketed formally on October 9, 2006 (App. 100i-101i).

### JURISDICTIONAL STATEMENT

The district court had jurisdiction over Petitioner's patent infringement claims pursuant to 28 U.S.C. § 1338(a). The Federal Circuit had jurisdiction to hear Respondents' appeal pursuant to 28 U.S.C. § 1295(a)(1). The Federal Circuit filed its opinion on July 14, 2008 (532 F.3d 1318, App. 7b-37b). MuniAuction's timely petition for rehearing and suggestion for rehearing *en banc* was denied on September 25, 2008 (App. 38c-40c). This Court has jurisdiction pursuant to 28 U.S.C. § 1254(a)(1). See S.Ct. Rule 13.3.

## STATUTORY PROVISIONS INVOLVED

This case involves interpretation of 35 U.S.C. § 271(a) and (b):

### §271 Infringement of patent

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

## I. STATEMENT OF THE CASE

### A. The Law Of “Joint Infringement” As Of The 2006 Trial

The jury in this lawsuit – the MuniAuction case – returned a verdict of willful patent infringement against Respondent Thomson on October 5, 2006 (App. 45e-50e). At that time, the Federal Circuit’s most recent holding on the subject of “joint infringement” of method claims through the combined acts of more than one entity included express approval of the following jury instruction:

It is not necessary for the acts that constitute infringement to be performed by one person or entity. When infringement results from the participation and combined action(s) of more than one person or entity, they are all joint infringers and jointly liable for patent infringement. ***Infringement of a patented process or method cannot be avoided by having another perform one step of the process or method. Where the infringement is the result of the participation and combined action(s) of one or more persons or entities, they are joint infringers and are jointly liable for the infringement.***

On Demand Machine Corp. v. Ingram Industries, Inc., 442 F.3d 1331, 1344-45 (Fed. Cir. 2006) (emphasis added). “***We discern no flaw in this instruction as a statement of law,***” the Federal Circuit held. Id. at 1345 (emphasis added). Accordingly, the district court’s jury instruction in this lawsuit faithfully followed the Federal Circuit’s On Demand decision:

[A] party cannot avoid infringement by having another party perform one or more of the required steps of a patented process. ... Where the infringement is a result of the participation and combined actions of one or more people, they are

joint infringers and are jointly liable for the infringement. ...

(App. 43d). Indeed, the district court provided still further guidance, reflecting the long-established “joint infringement” doctrine:

Consider whether the parties are acting jointly or together in relation to the electronic auction process. Are they aware of each other’s existence and interacting with each other in relation to the electronic auction process? Is there one party teaching, instructing or facilitating the other party’s participation in the electronic auction process? These are the types of questions that you should ask in making your decision on this issue.

(App. 43d-44d).

**B. “Joint Infringement”  
From 1871 To 2006**

There was nothing new about the concepts expressed in On Demand and in the district court’s jury instruction. Almost thirty years ago, this Court emphasized that patent owners should not be denied relief where one party facilitates infringement by others:

The idea that a patentee should be able to obtain relief against those whose acts facilitate infringement by others has been part of our law since *Wallace v. Holmes*, 29 F. Cas. 74 (No. 17,100) (CC Conn. 1871).

Dawson Chemical Co. v. Rohm & Haas Co., 448 U.S. 176, 179-80 (1980). This Court explained:

The *Wallace* case demonstrates, in a readily comprehensible setting, the reason for the contributory infringement doctrine. It exists to protect patent rights from subversion by those who, without directly infringing the patent themselves, engage in acts designed to facilitate infringement by others. This protection is of particular importance in situations, like the oil lamp case itself, where enforcement against direct infringers would be difficult, and where the technicalities of patent law make it relatively easy to profit from another's invention without risking a charge of direct infringement.

Dawson, 448 U.S. at 188-89 (citations omitted). (Although Dawson involved contributory infringement under 35 U.S.C. § 271(c)), this Court's reasoning is equally applicable in the context of "joint infringement.") Notably, the district court's jury

instruction quoted on pp. 3-4, above, carefully echoed the language of Dawson referring to "acts designed to facilitate infringement by others."

"Joint infringement" had a century-and-a-half long pedigree before On Demand, dating at least from the 1871 Wallace decision. Before the 1952 enactment of the Patent Act, courts found infringement where the parties' combined actions led to performance of all claimed method steps. See, e.g., Bullock Electric & Mfg. Co. v. Westinghouse Electric & Mfg. Co., 129 F. 105, 112 (6th Cir. 1904) (finding infringement where there is "an intent to assist another in an infringing use of the patented method," as the holding in Wallace "applies as well to the method patent as to the combination claims"); Peerless Equipment Co. v. W. H. Miner, Inc., 93 F.2d 98 (7th Cir. 1937) (finding infringement because the manufacturer passed nearly-finished gears on to the customer "with the knowledge that the railroads will put them to use and thereby flatten the crown, thus completing the final step of the process.>").

The legislative history of the 1952 patent statute confirms that Congress intended to leave the common law scope of direct infringement unchanged, including the existing "joint infringement" decisions. Senate and House reports accompanying the Act maintained that the law shall continue to enjoin "those who sought to cause infringement by supplying someone else with the means and directions for infringing a patent." S. Rep. No. 82-1979, at 8 (1952); H.R. Rep. No. 82-1923, at 9



(1952). This Court has confirmed that the Act preserved pre-codification direct infringement principles: “In the context of infringement, we have already held that pre-1952 precedent survived the passage of the 1952 Act.” Warner-Jenkinson Co. v. Hilton Davis Chemical Co., 520 U.S. 17, 26-27 (1997) (citing Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 342 (1961) (35 U.S.C. § 271 “left intact the entire body of case law on direct infringement”). And cases such as Shields v. Halliburton Co., 493 F. Supp. 1376 (W.D. La. 1980), *aff’d*, 667 F.2d 1232 (5th Cir. 1982), and Hill v. Amazon.Com, Inc., 2006 U.S. Dist. LEXIS 3389 (E.D. Tx. 2006), both discussed below, continued to apply “joint infringement” principles after passage of the 1952 statute.

**C. The Federal Circuit’s  
Vacillating Decisions  
Relating To “Joint Infringement”  
Since The 2006 Trial In This Case**

Faced with the jury’s willful infringement verdict (App. 45e-50e) and the district court’s July 31, 2007 decision denying JMOL (502 F.Supp.2d 477, App. 53g-94g), Respondent Thomson instantly retained new counsel, who filed “emergency” motions on August 1, 2007 in both the district court and the Federal Circuit asking that the injunction be stayed pending appeal. The district court denied Thomson’s stay motion on August 21, 2007 (App. 95h-99h), but on September 28, 2007, the Federal Circuit granted Thomson’s motion

for a stay (App. 1a-6a). The Federal Circuit took two months to rule on Thomson's "emergency" motion. The Federal Circuit's September 28, 2007 Order granting Thomson's motion for a stay did not even acknowledge the district court's denial of a stay, but instead cited the BMC decision – which was handed down on September 20, 2007, seven weeks after Thomson filed its "emergency" motion – as the sole basis for ruling that Thomson's appeal had "a strong likelihood of success on the merits" (App. 3a). The Federal Circuit's "analysis" of the issue was just three sentences long, and did not even acknowledge, let alone analyze, any of the factual evidence of "control or direction" that was presented at trial (App. 3a).

Encouraged by the Federal Circuit's reliance on the just-decided BMC case (not to mention the Federal Circuit's willingness to reach conclusions about "joint infringement" without considering the facts), Thomson framed its appeal on the merits to the Federal Circuit solely on the basis of three Federal Circuit decisions handed down in the year *after* the jury trial. As Respondent Thomson boasted to the Federal Circuit at the very beginning of its appeal brief:

Recent landmark decisions of this Court [the Federal Circuit] and the Supreme Court have destroyed the very foundation on which the jury's verdict and the district court's judgment rest, leaving the judgment entirely unsupported.

(Thomson's opening appeal brief, p. 2). Respondent Thomson began its reply brief with the same invocation of the three post-trial decisions in other cases:

Thomson demonstrated in its opening brief that it is entitled to judgment as a matter of law or, at the very least, a new trial in light of this Court's [the Federal Circuit's] decisions in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), and *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), and the Supreme Court's decision in *KSR International Co. v. Teleflex, Inc.*, 127 S.Ct. 1727 (2007).

(Thomson's corrected reply appeal brief, p. 1).

The Federal Circuit's decision in this case, *MuniAuction, Inc. v. Thomson Corporation*, 532 F.3d 1318 (Fed. Cir. 2008) (App. 7b-37b), in turn relied entirely on *BMC*, *KSR* and *Seagate* to reach its decision reversing in part and vacating in part the jury verdict of willful infringement and the district court's July 31, 2007 JMOL Decision (502 F.Supp.2d 477, App. 53g-94g). (The Federal Circuit's decision was not a full reversal of the district court's judgment; instead, the Federal Circuit denied the portion of Thomson's appeal seeking to have all asserted claims declared invalid, holding that claims 2, 18, 20, 24, 32, 40, 42 and 46 of MuniAuction's patent are still valid notwithstanding

7

Thomson's attack on them in its appeal. 532 F.3d at 1328 (App. 33b). That is why the Federal Circuit had to decide the issue of infringement. Id.)

Nearly one year after trial, the Federal Circuit stated in BMC Resources, Inc. v. Paymentech, L.P., 498 F.3d 1373 (Fed. Cir. 2007), that the decision in On Demand "***did not change*** this court's precedent with regard to joint infringement." BMC, 498 F.3d at 1380 (emphasis added). Like the district court in this case, other district courts also were using On Demand as the standard jury instruction in "joint infringement" cases. See, e.g., Collegenet, Inc. v. XAP Corp., 2006 U.S. Dist. LEXIS 49760, \*44 (D. Or. 2006) (quoting On Demand jury instruction).

In its post-trial BMC decision, the Federal Circuit purported to re-affirm the "joint infringement" doctrine that a defendant cannot "avoid liability for direct infringement by having someone else carry out one or more of the claimed steps on its behalf." Id. at 1379. The Federal Circuit held that:

A party cannot avoid infringement, however, simply by contracting out steps of a patented process to another entity. ***In those cases, the party in control would be liable for direct infringement. It would be unfair indeed for the mastermind in such situations to escape liability.*** District courts in those cases have held a party

liable for infringement. See *Shields v. Halliburton Co.*, 493 F. Supp. 1376, 1389 (W.D. La. 1980).

BMC, 498 F.3d at 1381 (emphasis added). In Shields – which the Federal Circuit cited with approval in BMC – the district court held:

When infringement results from the participation and combined action of several parties, they are all joint infringers and jointly liable for patent infringement. Infringement of a patented process or method cannot be avoided by having another perform one step of the process or method.

Shields, 493 F.Supp. at 1389, *aff'd*, 667 F.2d 1232 (5th Cir. 1982). “Having another perform one step of the process or method” is exactly what Respondent Thomson did here.

Thus, the legal test propounded by the BMC decision supposedly required proof of either “direction” or “control” by the party found vicariously liable over the entity whose conduct it directed or controlled. BMC, 498 F.3d at 1378. Control or direction supposedly had only to be exercised over the claimed element or step itself, not generally. BMC, 498 F.3d at 1380 (focusing on whether or not “one party control[s] or direct[s] each step of the patented process”).

Thomson's exclusive reliance on retroactive application of post-verdict decisions in other cases (notably BMC) paid off. Citing BMC, the Federal Circuit in the MuniAuction case first attacked the district court for giving a jury instruction based on On Demand, even though that case was the Federal Circuit's own most recent statement of the law at the time of the trial. Turning its own On Demand decision on its head, the Federal Circuit characterized its BMC decision as holding that:

[T]his Court in BMC Resources explicitly affirmed [sic] a reading of On Demand as "not in any way rely[ing] on the relationship between the parties." [BMC,] 498 F.3d at 1380.

MuniAuction, 532 F.3d at 1329-30 (App. 36b). This despite the Federal Circuit's own clear holding in On Demand that the "relationship between the parties" as they perform the steps of the claimed method is at the very heart of the issue of "joint infringement":

Where the infringement is the result of the participation and combined action(s) of one or more persons or entities, they are joint infringers and are jointly liable for the infringement.

On Demand, 442 F.3d at 1345.



Having effectively abandoned more than a century of precedent governing “joint infringement” by “the participation and combined action(s) of one or more persons or entities,” the Federal Circuit went on in its MuniAuction decision to create a new (and effectively unachievable) legal standard for “joint infringement” – a new test that states that there can be no infringement unless one entity itself “perform[s] every step of the claimed methods [or has] another party perform steps on its behalf” (532 F.3d at 1330, App. 37b) – that is, what amounts to a formal agency relationship. The Federal Circuit arrived at this conclusion by disregarding the “connection” standard of On Demand and by paying mere lip service to the “control or direction” method of approaching the factual evidence that was announced in BMC.

The Federal Circuit’s new “on behalf of” standard is a marked departure from “[the Federal Circuit’s] precedent with regard to joint infringement,” which the BMC decision was at pains to emphasize. BMC, 498 F.3d at 1380. In fact, before the MuniAuction decision, “the Federal Circuit’s precedent” had been universally understood as *not* requiring any formal “agency” relationship – that is, no requirement that parties act “on behalf of” each other. See, e.g., Hill v. Amazon.Com, Inc., 2006 U.S. Dist. LEXIS 3389, \*18 (E.D. Tx. 2006) (“*In the absence of an agency or contractual relationship*, the case law appears to require a showing that the defendant and the third party are connected at least to the extent that the defendant must actually direct the third party

to perform the remaining steps of the method.”) (emphasis added). No wonder: requiring parties to act “on behalf of” each other to prove “vicarious liability” creates a standard under which there can never be “joint infringement.” That is because a party can be “vicariously liable” for a tort committed by another only if the other has itself committed a tort. In a situation in which no party performs all steps of a method claim, by definition no party has committed a complete tort for which some other party could be vicariously liable. The Federal Circuit’s MuniAuction decision effectively destroyed the law of “joint infringement” as it has been recognized for decades in the federal courts.

Thus, the Federal Circuit’s MuniAuction decision over-ruled both On Demand and BMC (not to mention ignoring this Court’s reasoning in Dawson Chemical) – and the panel did so *sub silentio*, notwithstanding its assertion that the law was not changed by BMC, and in defiance of the principle that only an *en banc* decision can over-rule prior Federal Circuit precedent. Newell Co. v. Kenney Mfg. Co., 864 F.2d 757, 765 (Fed. Cir. 1988).

#### **D. District Court Decisions** **Since MuniAuction Reveal Confusion**

Not surprisingly, the Federal Circuit’s MuniAuction and BMC decisions left confusion and disarray in their wake at the district court level. After MuniAuction, some district courts still continue to



recognize and try to apply the time-honored principle of “control or direction” that underlies the relationship between the parties involved in “joint infringement.” In Rowe International Corp. v. Ecast, Inc., 2008 U.S. Dist. LEXIS 75327 (N.D. Ill. August 25, 2008), for example, the district court denied summary judgment on the issue of joint infringement, analyzing the relationship between the joint infringers as follows:

[T]he record in this case includes indicia of direction and control by Ecast over Rock-Ola and View with regard to the alleged infringement. ... The indicia of direction and control go beyond what was present in *BMC Resources*, *Cross Medical Products*, and other cases in which patentees failed to establish “mastermind”-level direction of participants in the alleged infringing activities. Specifically, the record discloses that Ecast has manufacturing and distribution contracts with both Rock-Ola (since September 2003) and View (since April 2005). Cf. *BMC Resources*, 498 F.3d at 1382 (noting that the record “contained no evidence even of a contractual relationship” between defendant and other participants in the alleged infringement). Ecast regarded View and Rock-Ola as “partners” that, pursuant to these manufacturing contracts, made jukeboxes specifically

designed to operate with Ecast's network service.

Rowe, 2008 U.S. Dist. LEXIS 75327, at \*11-\*13 (record citations omitted). The district court concluded that there was evidence from which a jury reasonably could find that the other parties manufactured jukebox hardware subject to Ecast's "mastermind"-level direction of participants in the alleged infringing activities." Id. at \*13. Compare kSolo, Inc. v. Catona, 2008 U.S. Dist. LEXIS 95107 (C.D. Cal. November 10, 2008) (holding that the extent of "control or direction" was a fact issue unsuited to judgment on the pleadings under Fed.R.Civ.P. 12(c)).

At the other extreme, some district courts have tried to apply the new "on behalf of" language of the MuniAuction decision. Thus, for example, in Emtel, Inc. v. LipidLabs, Inc., 2008 U.S. Dist. LEXIS 77597 (S.D. Tx. September 30, 2008), the district court concluded that there could be no "joint infringement" without proof of both formal, contractual control and a full "agency" relationship between the entities involved:

The mere fact that there is a contract between the movants and the physicians or physician groups is not sufficient. ... [F]or liability to attach, the "mastermind" must so control the third party in its performance of the infringing steps that the third party does so as the defendant's

agent. The degree of control must be such that the defendant could be vicariously liable for the third party's performance. Making information available to the third party, prompting the third party, instructing the third party, or facilitating or arranging for the third-party's involvement in the alleged infringement is not sufficient.

Emtel, 2008 U.S. Dist. LEXIS 77597, at \*77-\*79 (citations omitted). Not surprisingly, infringement was not found in the Emtel case. Id. at \*80.

Still other district courts have invented their own shortcuts. In Global Patent Holdings, LLC v. Panthers BRHC LLC, 2008 U.S. Dist. LEXIS 61697 (S.D. Fla. Aug. 13, 2008), the district court sidestepped the question of "direction or control" altogether, and instead formulated its own *per se* test for "joint infringement." The district court below did not come to grips with the "sufficiency" of control over precisely how each individual step is performed, nor the evidence of such control or direction. Instead, it focused improperly upon the initiation of the process (visiting the website) rather than on how each of the claimed steps was actually performed:

The initial step of the '341 patent calls for action on the part of the remote computer user. Plaintiff claims that this action is "controlled" by Defendant because

Defendant puts Javascript programs on the remote user's computer to allow the process to begin. Nevertheless, the court does not believe this "control" is sufficient "direction or control" over the remote computer user. Plaintiff has, in no way, alleged that remote users are contractually bound to *visit the website*, it has not alleged that the remote users are Defendant's agents who *visit the website* within the scope of their agency relationship nor has it alleged any facts which would render Defendant otherwise vicariously liable for the acts of the remote user.

Global Patent Holdings, 2008 U.S. Dist. LEXIS 61697, at \*10 (emphasis added). (Notably, the first claimed method step was *not* "visiting a website," as the district court seems to have believed, but rather "identifying a query via a data input means and inputting said query to remote query and retrieval means.")

Thus, the district court's decision in Global Patent Holdings relied solely on its holding that the first method step of the claim ("identifying a query...") could never be performed under the "direction or control" of the defendant because, in the district court's words, "the initial step of the '341 patent calls for action on the part of the remote computer user" whereas "[i]f no person ever visited Defendant's

website, then Plaintiff's patent would never be infringed." Global Patent Holdings, 2008 U.S. Dist. LEXIS 61697, at \*10. Stating that remote users are not "contractually bound to visit Defendant's website" and that the remote users are not "Defendant's agents who visit the website within the scope of their agency relationship," the district court held that it did not matter what the website or the user's computer were doing, because "Defendant may give home users the keys to the truck, but home users have no obligation to use those keys to start the truck and drive away." Id. at \*10-\*11. This *per se* rule formulated by the district court held that "joint infringement" is impossible, as a matter of law, whenever the first method step is initiated by a third party, regardless of how that step is actually performed or defined in the claim itself.

## II. REASONS FOR ALLOWANCE OF A WRIT OF CERTIORARI

This is a case in which the "United States court of appeals [for the Federal Circuit] has decided an important question of federal law that has not been, but should be, decided by this Court" (in the words of Supreme Court Rule 10(c)) by creating a new "on behalf of" standard for "joint infringement" in the MuniAuction case, which is so vague that district courts cannot even agree on what it means. Moreover, the new "on behalf of" standard surely conflicts with the reasoning, if not the narrowest holding, of this Court's precedent, notably Dawson Chemical. Worse, by applying its new "on behalf of" test retroactively,

the Federal Circuit's MuniAuction decision has turned method patent claims into what this Court has condemned as a "nose of wax which may be turned and twisted in any direction ... so as to make it include something more than, or something different from, what its words express." White v. Dunbar, 119 U.S. 47, 51 (1886). The practical result has been effectively to invalidate, at a stroke, the method claims of hundreds or thousands of patents in such diverse areas as pharmaceuticals, cellular telephone technology, telecommunications and Internet technology.

**A. The Federal Circuit's Vacillation  
About "Joint Infringement"  
Has Befuddled District  
Courts, Necessitating  
Resolution By This Court**

Since the Federal Circuit's MuniAuction decision, district courts have been unable to perceive or apply any consistent standard for "joint infringement." The district court that decided the Global Patent Holdings case expressed perplexity concerning the standard that now governs "joint infringement" under the Federal Circuit's precedent:

The Federal Circuit *did not explain with any specificity* what it meant [in BMC] by "direction or control."

Global Patent Holdings, 2008 U.S. Dist. LEXIS 61697, at \*7 (emphasis added). Similarly, the district court in

Emtel noted that: “the case law in this area is both new and uncertain.” Emtel, 2008 U.S. Dist. LEXIS 77597, at \*81-82. Most recently, in kSolo, the district court pointedly noted that:

Neither *Paymentech* nor *Muniauction* provides a standard for courts to use in determining whether one actor was under the control or direction of another. Rather, as one district court has recently noted, *Muniauction* creates a “spectrum” of multi-party relationships.”

kSolo, 2008 U.S. Dist. LEXIS 95107, at \*11, quoting Emtel.

Thus, thanks to the vacillation and opacity of the Federal Circuit’s jurisprudence concerning “joint infringement,” district courts are now at a loss concerning when (if ever) “joint infringement” can be found; and even what evidence ought to be considered in making that determination.

**B. The Federal Circuit’s *MuniAuction* Decision Encourages Deliberate Defiance Of Valid U.S. Patents**

The Federal Circuit’s MuniAuction decision also threatens drastically to change the meanings of the claims of hundreds or even thousands of patents, by imposing a previously unheard-of “on behalf of” requirement for “joint infringement” which, at least in



the view of some district courts, requires both formal, contractual control and a full "agency" relationship between the entities involved (see Emtel, for example). In the medical field, in U.S. Patent No. 7,346,203 (assigned to GE Medical Systems), the steps of claim 57 include "imaging a patient with a medical imaging apparatus" and "track[ing] the disease in the patient by computer analysis of the images via the analysis software executable on the personal computer of the patient." The Federal Circuit's MuniAuction decision (which rejects the proposition that direct infringement can result from "control or direction" in the form of supplying software for execution on the computer of a third party) would make it impossible for this claim to be infringed.

Similarly, in U.S. Patent No. 5,368,862 (assigned to Merck & Co.) for using a "sustained release tablet containing alginate," claim 4 requires a first step of "preparing a tablet comprising a therapeutically effective amount of the active ingredient to be released in a stomach or intestine and an alginate, the alginate consisting essentially of a partially acetylated variable block copolymer alginate of D-mannuronic and L-guluronic acid produced by *Pseudomonas* or *Azotobacter* strains, in an amount between about 5-50% wt. of the tablet," while the second claimed method step is "orally administering the tablet to the patient to deliver the tablet to the stomach or intestine." Similarly, in U.S. Patent No. 6,956,059 (assigned to Croda International, plc), which covers use of anti-inflammatory and



immunomodulatory amino acid derivatives, claim 17 calls for a first method step of providing a compound having a certain general structural formula "wherein R is hydrogen (H) or C1-6 alkyl; and X is defined such that  $-NH-(X)-COOH$  is the residue of an amino acid, which amino acid may itself optionally be substituted at any pendant amino group thereof by a residue of a carboxylic acid or a derivative thereof; or a salt thereof"; and a second step of "administering said compound to the patient in an amount that is substantially non-toxic and therapeutically effective to prevent or treat said condition." Only a treating physician who happens to operate his or her own pharmaceutical manufacturing facility could infringe such claims under the MuniAuction decision.

Unintended consequences like these are not lost on unscrupulous companies. Indeed, the entire business models of some firms are explicitly and shamelessly grounded on defying duly-issued, valid United States patents. As recently reported by Bloomberg News, a leading financial website:

Dec. 1 (Bloomberg) — Teva Pharmaceutical Industries Ltd. turned itself into the world's biggest maker of generic medicines through a high-risk strategy of flouting drug patents. .... Teva, Israel's biggest company by market capital, risks paying billions of dollars in legal damages by taking a calculated gamble: It begins selling copies while

patents on a drug are still being disputed in court. Teva bets it will win the court case, allowing it to avoid triple damages for violating valid patents on brand-name drugs.

The company has pulled off the maneuver 13 times since 2004, helping double annual revenue to \$9.41 billion. .... The company, which often targets patents it contends are obvious variations on existing ideas, has yet to pay damages. Instead, Teva scooped up sales. .... Teva started in 1901 by distributing imported medicines on camels and donkeys. .... In the 1980s Teva expanded into the U.S. through acquisitions and a 1984 law that grants six months' exclusivity to the first generic-drug maker challenging U.S. patents.

\* \* \* \*

Bill Marth, head of Teva's North American unit, confirmed in an interview that Teva is considering other drugs for its at-risk strategy. He declined to say which ones.

(Catherine Larkin & Susan Decker, "Teva Grabs Billions Gambling on Copies of Brand Drugs,"

www.bloomberg.com, December 1, 2008, App. 102j-108j).

Patents in other fields, such as electronic data communication and cell phone technology, also would be devastated by the Federal Circuit's MuniAuction decision. For example, in U.S. Patent No. 6,791,472, method claim 15 requires a hub (a "central station") to "transmit" traffic information, along with a plurality of remote mobile units, which would be under the control of a different person or entity, to "receiv[e] and display" the traffic information. Does it matter now whether the person transmitting or receiving does so voluntarily, not contractually and as an agent? Similarly, in U.S. Patent No. 7,038,663, method claim 1 requires transmission from a website and receipt at a display apparatus which would be operated by another entity.

Indeed, *any* claim that requires as one method step that a computer or cell phone must be activated by a user, even though that step is controlled by a web site operator or a carrier, can no longer be enforced against infringers. That is so because users typically are not contractually obligated to visit a particular website, nor are they contractually obligated to place a telephone call. And they surely are not "agents" of the carrier. Under the Federal Circuit's MuniAuction decision, whenever the user voluntarily decides to visit a website or voluntarily make a phone call, even though the performance of *all* method steps would be controlled by the website operator or carrier, there could be no infringement. The defendant would be off

the hook and no person or entity ever could infringe the claims. Worse, such claims will be instantly changed from having a defined scope (even a scope that is limited by having to prove "direction or control" as in BMC) to having no scope whatever. Such a result truly would make all of these broad categories of claims into a "nose of wax." The essential function of the claims of such patents, which is notice to the public, would be defeated. And the business of companies like Teva, which boasts that it relies on defying U.S. patents, will receive a tremendous shot in the arm if the Federal Circuit's MuniAuction decision is not overruled by this Court.

**C. Inconsistent Application  
Of The New *MuniAuction*  
Standard Has Made It Impossible  
To Assign Any Meaningful  
Scope To Method Patent Claims**

In 1982, conflicting decisions of regional circuit courts of appeal on patent law issues led Congress to pass the Federal Courts Improvement Act, now 35 U.S.C. § 1 *et seq.* That Act established the Federal Circuit and consolidated appeals from patent cases in that court with the intention of decreasing such uncertainty. Aerojet-General Corp. v. Machine Tool Works, 895 F.2d 736, 744 n. 7 (Fed. Cir. 1990) ("[T]he central purpose [in creating the Federal Circuit] is to reduce the widespread lack of uniformity and uncertainty of legal doctrine that existed in the administration of patent law.") (quoting H.R. Rep. No.

312, 97th Cong., 1st Sess. 41 (1981)). In this instance, unfortunately, conflicting panel decisions from the Federal Circuit itself in On Demand, BMC and MuniAuction have thwarted the goal of the Act.

It is fundamental to our patent system that the public be able to ascertain the extent of the patent property right – which is delineated by the claims of a patent – with reasonable certainty. Hogg v. Emerson, 47 U.S. 437, 484 (1848) (explaining that patents must be sufficiently clear “so that the public, while the term continues, may be able to understand what the patent is, and refrain from its use, unless licensed.”) (citations omitted). To alter the scope of issued patent claims by creating new rules for infringement that have retroactive effect – as the Federal Circuit did in MuniAuction – is to turn method patent claims into what this Court has condemned as a “nose of wax which may be turned and twisted in any direction ... so as to make it include something more than, or something different from, what its words express.” White v. Dunbar, 119 U.S. 47, 51 (1886). Equally troublesome is the inability of district courts to perceive or apply any coherent rule for “joint infringement” from the Federal Circuit’s opaque pronouncements in BMC and MuniAuction. See Section I-D, above.

**D. Retroactive Application  
Of The *MuniAuction* “Joint  
Infringement” Standard  
Should Be Barred By This Court’s  
Decisions Concerning Retroactivity**

Compounding the problem of ever-changing Federal Circuit decisions in this area is the retroactive application of those decisions in patent infringement cases that often require many years to litigate. (The complaint in this case, for example, was filed on June 1, 2001, almost eight years ago, and the trial was held a year before the Federal Circuit began to change the law of “joint infringement.”)

Retroactive application of new legal rules – notably the unattainable “on behalf of” standard enunciated by the panel here (and even the “control or direction” standard of BMC, to the extent it might be construed as more-restrictive than On Demand, which stated the law as it stood at the time of the trial) – is subject to limitations imposed by this Court. In the most recent case to consider the issue at some length in the civil context, Reynoldsville Casket Co. v. Hyde, 514 U.S. 749 (1995), this Court (interpreting Harper v. Virginia Department of Taxation, 509 U.S. 86 (1993)) held that although more than “simple reliance” on an existing rule of law is required to prevent retroactive application of a newly-announced rule, in some circumstances such “retroactive application” of the new rule is improper:

{A}s courts apply “retroactively” a new rule of law to pending cases, they will find instances where that new rule, for well-established legal reasons, does not determine the outcome of the case. Thus, a court may find ... (3) as in the law of qualified immunity, **a well-established general legal rule that trumps the new rule of law, which general rule reflects *both* reliance interests and other significant policy justifications**, or (4) a principle of law, such as that of “finality” present in the *Teague* context, that limits the principle of retroactivity itself.

Reynoldsville Casket, 514 U.S. at 758-59 (boldface emphasis added; italics in original). (This Court’s recent decision in Danforth v. Minnesota, 128 S.Ct. 1029 (2008), turned on special principles relating to habeas corpus petitions and has no application here.)

This Court’s Harper decision was preceded by Chevron Oil Co. v. Huson, 404 U.S. 97 (1971), in which this Court laid out a three-part test for examining whether a new rule of law should be applied prospectively.

First, the decision to be applied nonretroactively must establish a new principle of law, either by overruling clear past precedent on which litigants



may have relied, or by deciding an issue of first impression whose resolution was not clearly foreshadowed. Second, it has been stressed that we must ... weigh the merits and demerits in each case by looking to the prior history of the rule in question, its purpose and effect, and whether retrospective operation will further or retard its operation. Finally, we have weighed the inequity imposed by retroactive application, for where a decision of this Court could produce substantial inequitable results if applied retroactively, there is ample basis in our cases for avoiding the injustice or hardship by a holding of nonretroactivity.

Chevron Oil, 404 U.S. at 106-07 (quotations and internal citations omitted).

Importantly, Harper did not expressly overrule Chevron. One month after Reynoldsville Casket, this Court again recognized that under certain circumstances, the three-part retroactivity doctrine articulated in Chevron remains viable.<sup>6</sup> See Ryder v. United States, 515 U.S. 177 (1995) (applying its decision retroactively but recognizing the possible continuing viability of Chevron).

But whatever the continuing validity of *Chevron Oil* after *Harper v. Virginia Dept. of Taxation*, 509 U.S. 86 (1993), and



*Reynoldsville Casket Co. v. Hyde*, 514 U.S. 749, 131 L.Ed. 2d 820, 115 S. Ct. 1745 (1995), there is not the sort of grave disruption or inequity involved in awarding retrospective relief to this petitioner that would bring [the Chevron] doctrine into play.

*Ryder*, 515 U.S. at 184-85. This sequence of decisions has left district courts in some doubt about the proper scope of retroactive application of new legal rules. See, e.g., *Earth Island Institute v. Ruthenbeck*, 2005 U.S. Dist. LEXIS 29511, \*8 (E.D. Ca. 2005) ("The law governing when a judicial decision applies only prospectively is not entirely clear.").

Importantly, the question that was not addressed by *Harper*, and which is presented here, is when is it proper for the Federal Circuit to apply a newly-announced rule of law retroactively, in such a way as to change the scope of issued U.S. patent claims? This question calls out for resolution inasmuch as patent owners are especially likely to suffer extreme negative effects from the retroactive application of new legal rules because the complexity and novelty of patent cases, which has resulted in a greater amount of rule changing. Daniel R. Cahoy, Changing the Rules in the Middle of the Game: How the Prospective Application of Judicial Decisions Related to Intellectual Property Can Promote Economic Efficiency, 41 Am. Bus. L.J. 1, 21-29 (2003) (advocating

for a more aggressive application of Chevron in intellectual property cases – “enhanced Chevron”).

Applying the principles of Reynoldsville Casket to this case reveals that, regardless of whether or not the Federal Circuit’s new “on behalf of” standard was correct, it should not have been applied retroactively to the litigants in the MuniAuction case itself.

### 1. “Reliance”

Here, the “reliance interests” of MuniAuction (and of the district court itself, for that matter) plainly disfavor retroactive application of the new “on behalf of” rule enunciated by the panel. This lawsuit has been pending for more than eight years; there has been a trial at which MuniAuction (and the district court) reasonably relied upon On Demand Machine as the authoritative statement of the law. It would be grossly unfair to MuniAuction to apply a modified legal standard created 11 months after the trial itself and then applied almost two years later. The parties and the trial court acted under the then-established legal standard and a new trial under the new standard will not deprive Thomson of anything it could possibly have been relying upon at trial.

### 2. “Well-Established Legal Rule”

In addition to “reliance,” Reynoldsville Casket also requires “a well-established general legal rule that trumps the new rule of law, which general rule reflects

*both* reliance interests and other significant policy justifications.” 514 U.S. at 759 (*italics in original*). Such a “well-established general legal rule” is unquestionably present here: it is the rule that the meaning of patent claims must remain constant and must be clearly comprehensible both to patent owners and to potential infringers. As the Supreme Court has held:

*The limits of a patent must be known for the protection of the patentee, the encouragement of the inventive genius of others and the assurance that the subject of the patent will be dedicated ultimately to the public. ... The inventor must inform the public during the life of the patent of the limits of the monopoly asserted, so that it may be known which features may be safely used or manufactured without a license and which may not. The claims measure the invention.*

General Electric Co. v. Wabash Appliance Corp., 304 U.S. 364, 369 (1938) (*emphasis added, footnotes omitted*); see also, e.g., Johnson & Johnson Associates, Inc. v. R.E. Service Co., 285 F.3d 1046, 1052 (Fed. Cir. 2002) (*en banc*).

It is fundamental patent policy, therefore, that claims must be both definite in meaning and unchangeable over the life of the patent. To tinker

with the scope of issued patent claims is to turn the claims into a “nose of wax which may be turned and twisted in any direction ... so as to make it include something more than, or something different from, what its words express.” White, 119 U.S. at 51. “[I]t is unjust to the public, as well as an evasion of the law, to construe it in a manner different from the plain import of its terms.” Id. at 52. Yet, that is just what the Federal Circuit’s MuniAuction decision here has done.

Indeed, the Federal Circuit’s MuniAuction decision has drastically changed the meanings not only of the claims of the patent in suit, but also the meanings of the claims of hundreds or thousands of other patents, by imposing a hitherto unheard-of “on behalf of” standard for proving infringement. In the telecommunications industry alone, for example, literally thousands of issued patents include method claims which call for steps such as “receiving” and “transmitting” and “displaying” data between remote locations owned and/or controlled by different entities. See Subsection B, above. At a stroke, the Federal Circuit’s MuniAuction decision has made it effectively impossible to prove infringement of any of those claims. The Federal Circuit made those claims into a “nose of wax” and then turned up the heat – the claims are now melted, and their most-essential function of notice to the public and to the patent owners has been destroyed. Under Reynoldsville Casket, this Court has the authority to take action by granting this Petition – and under Dawson Chemical and White and General Electric it has the responsibility to do so.

The clincher is that if the three-part test of Chevron Oil retains viability, it too is satisfied here. There is no doubt that a “new principle of law” – the “on behalf of” standard – was created in this instance. The long prior history of the “joint infringement” rule, and the equities of this particular case, also counsel against retroactive application of the new standard to the Petitioner and Respondent here.

**E. “Proper Claim Drafting”  
Is Not The Issue Here**

One final point. The Federal Circuit suggested in BMC that “concerns over a party avoiding infringement by arms-length cooperation can usually be offset by proper claim drafting” by “focus[ing] on a single entity.” 498 F.3d at 1381. In this instance, there was nothing wrong with the claims as drafted. It is inherent in any auction that bidders and sellers (here, issuers) are different entities. The claims reflect that difference. And in any event, “proper claim drafting” is a suggestion that generally cannot be implemented on issued patents already in litigation. Moreover, to make a result turn on this sort of “claim drafting” would transform the drafting of patent claims into a word game like eighteenth century “code pleading” in law French. Use the wrong word, and you lose regardless of the substance of what is being said. To be sure, the wording of patent claims is important, but it should not be made into an exercise in which lack of prescience about matters which do not affect the

substance of the invention is punished by making patents worthless.

### III. **A GVR ORDER REMANDING THIS CASE FOR A NEW TRIAL IS APPROPRIATE**

At a minimum, Petitioner MuniAuction requests that the Court grant a writ of certiorari and vacate and remand ("GVR") this case to the Federal Circuit with instructions ordering a new trial limited to the specific issue of "joint infringement."

In Lawrence v. Chater, 516 U.S. 163 (1996), this Court confirmed "both that we have the power to issue a GVR order, and that such an order is an appropriate exercise of our discretionary certiorari jurisdiction." Id. at 166. Specifically, 28 U.S.C. § 2106 confers upon this Court a broad power to "vacate ... any judgment, decree or order of a court lawfully brought before it for review, and may remand the cause and ... require such further proceedings to be had as may be just under the circumstances." Id. In particular,

[w]here intervening developments, or recent developments that we have reason to believe the court below did not fully consider, reveal a reasonable probability that the decision below rests upon a premise that the lower court would reject if given the opportunity for further consideration, and where it appears that such a redetermination may determine



the ultimate outcome of the litigation, a GVR order is, we believe, potentially appropriate.

Lawrence, 516 U.S. at 167-168.

This case clearly meets this Court's GVR standard because relevant intervening post-trial precedent dramatically changed the standard of proof for "joint infringement," yet MuniAuction was not afforded any opportunity to place the evidence of "direction or control" before a jury that had been instructed on that standard established by the post-trial BMC decision – a decision that also post-dated the district court's injunction and JMOL decision on July 31, 2007 (502 F.Supp.2d 477, App. 51f-52f, 53g-94g). There is surely a reasonable probability that a jury instructed explicitly about "control or direction" would find "joint infringement."

The patent in suit here, U.S. Patent No. 6,161,099, entitled "Process and Apparatus for Conducting Auctions Over Electronic Networks," discloses and claims methods for conducting primary auctions for municipal bonds and other fixed-income securities using computerized interest rate calculations to evaluate bids, based on electronic communication over the Internet by exercising centralized control over the bidding process from an auctioneer's server. Before MuniAuction's invention, bond auctions suffered chronic difficulties, including overcrowding of the issuer's fax machines near the end of the bidding

period, leading to improper rejection of some bids as untimely; lack of synchronization of time stamps between the bidders' and issuer's fax machines; illegible fax copies; lack of a mechanism to correct non-conforming bids; use of inconsistent "true interest cost" ("TIC") calculation methods by different bidders; the need to install special software on bidders' computers and the inability to quickly reach a nationwide group of bidders. Determining the winning bid often was "impossible without the involvement of lawyers and telephone calls and some shouting back and forth."

Founded in 1997, MuniAuction pioneered municipal bond auctions using centralized, Internet-based control over the bidding process. After extensive testing, MuniAuction's system was publicly announced on May 28, 1997. Six months later, the City of Pittsburgh needed to float a \$70 million municipal bond issue. Hoping to avoid the chronic problems with prior auctions, the City turned to MuniAuction, which conducted the first-ever Internet bond auction, a breakthrough which came to be called the "Pittsburgh experiment." It was a huge success: the City saved as much as \$1 million on that first auction alone, receiving a prestigious "innovation award" from the Ford Foundation and Harvard University, recognizing Pittsburgh's pioneering use of MuniAuction's invention.

MuniAuction's invention soon achieved commercial success – and it attracted copycats, notably Respondent Thomson. Indeed, the district court's



decision awarding exemplary damages cited Thomson's deliberate copying of MuniAuction's invention; noting that the evidence "could also reveal sinister motives" (502 F.Supp.2d at 486, App. 75g). One such "sinister motive" was Thomson's deliberate intent to harm MuniAuction:

Motivation to Harm - Plaintiff presented evidence at trial that defendants priced their product at zero in order to harm plaintiff's business. Of course, defendants dispute that this was their motivation. In our review, plaintiff's [sic, "defendants"] internal documents discussing this exact motivation are telling. Therefore, this factor weighs in favor of enhancing damages.

(502 F.Supp.2d at 487, App. 77g-78g). None of these factual holdings was vacated nor changed in any way by the Federal Circuit's decision.

As tried to the district court, this case was the poster child for "joint infringement" if that term means anything at all. Thomson's "director for capital markets" and lead trial witness, Ms. Horowitz, admitted that Thomson's supplying software to other parties, in effect, means control – in particular, control over the calculation of true interest cost, which is the whole point of auctioning fixed-income securities:

- Q If I want to determine what the true interest cost is, I have to go to the Thomson central server database and have it calculated; right?
- A That's where the calculations sit; yes.
- Q You're not suggesting you don't control that calculation; are you?
- A Well, I wrote the software that it is; I created the calculation. Ah, so, yeah, we control the software.

The uncontradicted trial evidence (none of which was even mentioned in the Federal Circuit's decision) was that Thomson supplies bidders with proprietary software that has to be loaded and used in preparing and inputting bids. Thomson gives bidders permission to bid; it operates the servers on which bids are processed; it calculates true interest costs; it requires passwords and identification to bid; it defines what information can be put into bids, corrects errors and gives warnings if bids are in non-compliance; it controls what is available to bid on, what bid terms are needed and how bid information is transmitted to issuers; it controls the timing of bid submission and the length of time for the acceptance of bids; it creates screens to guide bidders through the bidding process; it controls the bid format, whether or not a bid will be

permitted, whether the required software will be provided, the right to access the bidding process and how to submit a bid. Most importantly, issuers and bidders must follow Thomson's detailed instructions (that is, Thomson's "direction") just to use the infringing system. Thomson also manages the web of interlocking contracts which underlie municipal bond auctions, and which are embodied in "Notices of Sale" and "Preliminary Offering Statements." (All of this evidence was undisputed, and was fully supported by trial testimony and documents presented to the jury for its consideration.)

Although all this evidence of "control or direction" was highlighted in closing argument, none of it received even passing mention, let alone consideration, in the Federal Circuit's decision on the merits. 532 F.3d at 1330 (App. 36b-37b). (Instead, the Federal Circuit's four-paragraph-long analysis concentrated on attacking the district court's use of On Demand as a basis for its jury instructions. MuniAuction, 532 F.3d at 1329-30 (App. 34b-37b). MuniAuction has been denied any chance to present its case to a jury instructed based on what the Federal Circuit now says the law is. Vacating the Federal Circuit's decision and remanding with instructions for a new trial on the issue of "joint infringement" is the simplest way to cure this manifest injustice.

#### IV. CONCLUSION

The confusion created by the Federal Circuit's vacillating decisions after On Demand in 2006 has now permeated district court decisions involving "joint infringement." The Federal Circuit's MuniAuction decision has left district courts utterly uncertain about when "joint infringement" may be found. This Court should grant this petition for a writ of certiorari to establish controlling precedent on that issue. At a minimum, this Court should vacate the Federal Circuit's judgment and remand with instructions for a new trial limited to the specific issue of "joint infringement."

Respectfully submitted,

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# APPENDIX

**Appendix A - Orders of the United States Court of  
Appeals for the Federal Circuit Granting  
Respondents' Motion for a Stay of  
Injunction Pending Appeal  
Dated September 28, 2007 and August 2, 2007**

NOTE: This order is nonprecedential.

United States Court of Appeals for the Federal  
Circuit

2007-1485

MUNIAUCTION, INC.  
(doing business as Grant Street Group),  
Plaintiff-Appellee,

v.

THOMPSON CORPORATION (trading and doing  
business as Thompson Financial LLC and Thompson  
Financial Municipals Group) and I-DEAL, LLC,  
Defendants-Appellants.

ON MOTION

Before RADER, SCHALL, and BRYSON, Circuit  
Judges.

BRYSON, Circuit Judge.

ORDER

Thompson Corporation et al. (Thompson) moves for a stay, pending appeal, of the July 31, 2007 permanent injunction of the United States District Court for the Western District of Pennsylvania. Muniauction, Inc. opposes. Thompson replies.

Muniauction brought suit against Thompson alleging willful infringement of Muniauction's apparatus and process patent for conducting municipal bond auctions over electronic networks. After trial, the jury determined that Muniauction's patent was valid and was willfully infringed by Thompson's Parity electronic bid system based on a theory of joint infringement.

After the jury's verdict, Thompson filed a Judgment as a Matter of Law (JMOL) motion, challenging the jury instructions and the jury's finding on obviousness, and the jury instructions regarding the theory of joint infringement. The district court denied Thompson's JMOL motion, finding that there was sufficient evidence to support the jury's verdict, that there was no reason to grant a new trial on the issue of obviousness, and that the jury instructions regarding joint infringement were in accordance with our precedent.

On July 31, 2007, the district court permanently enjoined Thompson from using, selling, or offering to sell its Parity electronic bid system or any other electronic bid submission system that would infringe Thompson's patent. Thompson

appeals and seeks a stay, pending appeal, of the permanent injunction.

In deciding whether to grant a stay or injunction, pending appeal, this court “assesses the movant’s chances of success on the merits and weighs the equities as they affect the parties and the public.” E.I. Dupont de Nemours & Co. v. Phillips Petroleum Co., 835 F.2d 277, 278 (Fed. Cir. 1987); see also Standard Havens Prods. V. Gencor Indus., 897 F.2d 511 (Fed. Cir. 1990). To prevail, a movant must establish a strong likelihood of success on the merits or, failing that, must demonstrate that it has a substantial case on the merits and that the “harms” factors militate in its favor. Hilton v. Braunskill, 481 U.S. 770, 778 (1987).

After the district court’s judgment, we issued our opinion in BMC Resources, Inc. v. Paymentech, L.P., \_\_ F.3d \_\_, No. 2006-1503, slip opinion (Fed. Cir. September 20, 2007), which set forth the standard for joint infringement by multiple parties of a single claim. We held in BMC Resources that, when the defendant has not performed all of the steps of an asserted method claim, the plaintiff must provide sufficient evidence that the defendant controlled or directed the actions of an unrelated party carrying out other steps of the claim to hold the defendant responsible for performing each and every element of the claim. Slip opinion at 14. Without prejudicing the ultimate disposition of this case by a merits panel, we conclude that there is a strong likelihood of success on the merits of Thompson’s appeal and that a stay is warranted.



Accordingly,

IT IS ORDERED THAT:

Thompson's motion for a stay, pending appeal,  
is granted.

FOR THE COURT  
/s/ William C. Bryson  
William C. Bryson  
Circuit Judge

Sep 28 2007  
Date

cc: Richard L. Rainey, Esq.  
Raymond P. Niro, Esq.

FILED  
U.S. COURT OF APPEALS FOR  
THE FEDERAL CIRCUIT  
SEP 28 2007  
JAN HORBALY  
CLERK

5a

NOTE: This order is nonprecedential.

United States Court of Appeals for the Federal  
Circuit

2007-1485

MUNIAUCTION, INC.  
(doing business as Grant Street Group),  
Plaintiff-Appellee,

v.

THOMPSON CORPORATION (trading and doing  
business as Thompson Financial LLC and Thompson  
Financial Municipals Group) and I-DEAL, LLC,  
Defendants-Appellants.

ON MOTION

Before MAYER, Circuit Judge.

ORDER

Thompson Corporation et al. (Thompson) submits a motion for a stay, pending appeal, of the July 31, 2007 permanent injunction of the United States District Court for the Western District of Pennsylvania.

Upon consideration thereof,

IT IS ORDERED THAT:

(1) MuniAuction, Inc. is directed to respond no later than August 10, 2007.

(2) The permanent injunction is temporarily stayed pending receipt of MuniAuction's response and consideration by the court of the papers submitted.\*

/s/ Haldane Robert Mayer  
Haldane Robert Mayer  
Circuit Judge

AUG -2 2007

Date

cc: Richard L. Rainey, Esq.  
Raymond P. Niro, Esq.

FILED  
U.S. COURT OF APPEALS FOR  
THE FEDERAL CIRCUIT  
AUG -2 2007  
JAN HORBALY  
CLERK

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\* The temporary stay is not based on a consideration of the merits. Rather, it is granted to preserve the status quo while the court is considering the parties' papers.

**Appendix B - MuniAuction, Inc. v. Thomson Corporation, 532 F.3d 1318 (Fed. Cir. 2008)**

Opinion of the United States Court of Appeals for the  
Federal Circuit  
Decided July 14, 2008

1318 532 FEDERAL REPORTER, 3d SERIES

MUNIAUCTION, INC. (doing business as Grant  
Street Group),  
Plaintiff-Appellee,

v.

THOMSON CORPORATION (trading and doing  
business as Thomson Financial LLC and Thomson  
Financial Municipals Group) and I-Deal, LLC,  
Defendants-Appellants.

No. 2007-1485.

United States Court of Appeals,  
Federal Circuit.

July 14, 2008.

Rehearing and Rehearing En Banc  
Denied Sept. 25, 2008.

**Background:** Patent owner brought action against competitor alleging infringement of patent for auctioning municipal bonds using Internet web browser. The United States District Court for the Western District of Pennsylvania, Gary L. Lancaster,

J., 502 F.Supp.2d 477, granted judgment for owner. Competitor appealed.

**Holdings:** The Court of Appeals, Gajarsa, Circuit Judge, held that:

- (1) submission of bids using prior art product did not lack any element of independent claims of "automatic computation step" in patent;
- (2) modification of prior art system to incorporate conventional web browser functionality would have been obvious to one of ordinary skill in the art;
- (3) clear and convincing prima facie case had been established that communicating and displaying steps claims of patent for auctioning municipal bonds using Internet web browser were obvious;
- (4) evidence of skepticism, legally appropriate praise, copying, and commercial success was not sufficient for jury to have concluded that competitor had not

1319 532 FEDERAL REPORTER, 3d SERIES

proved obviousness by clear and convincing evidence;

- (5) market-force skepticism by large investment banks who had been advantaged by existing all-or-none bidding system lacked requisite nexus to patent to rebut prima facie showing of obviousness; and

(6) actions of bidder and auctioneer could not be combined so as to give rise to finding of direct infringement.

Reversed in part and vacated in part.

### **1. Courts 96(7)**

The denial of a motion for judgment as a matter of law (JMOL) is a procedural issue not unique to patent law, which is reviewed under the law of the regional circuit where the appeal from the district court normally would lie.

### **2. Federal Courts 765**

Plenary review is exercised over an order granting or denying a motion for judgment as a matter of law and the same standard as the district court is applied.

### **3. Patents 324.5, 324.55(4)**

When reviewing the denial of a motion for judgment as a matter of law (JMOL), a jury's conclusions on the obviousness of a patent, a question of law, are reviewed without deference, and the underlying findings of fact, whether explicit or implicit within the verdict, are reviewed for substantial evidence. 35 U.S.C.A. § 103.

### **4. Patents 16.29**

Submission of bids using prior art product did not lack any element of independent "automatic computation step" claims in patent for auctioning municipal bonds using Internet web browser, other than use of web browser, and thus patent claims

were obvious, where, among other things, automatic computation step had been construed as capable of being performed on bidder's computer, prior art automatically computed true interest cost in sense that bidders did not have to compute bids by hand, and prior art re-did some of computation done by bidder's software during bid preparation. 35 U.S.C.A. § 103.

### **5. Patents 16.29**

Modification of prior art system to incorporate conventional web browser functionality would have been obvious to one of ordinary skill in the art, and thus "automatic computation step" claims in patent for auctioning municipal bonds, using Internet web browser were obvious; although prior art patents had not specifically addressed original issuer auctions of financial instruments, use of Internet and web browser technology to conduct electronic auctions had been well-established at time that patent application had been filed. 35 U.S.C.A. § 103.

### **6. Patents 16(2)**

Patent that did not issue until after other patent had been filed was prior art to other patent. 35 U.S.C.A. § 102(e)(2).

### **7. Patents 16.5(1), 17(1)**

When there is design need or market pressure to solve a problem and there are finite number of identified, predictable solutions, person of ordinary skill has good reason to pursue the known options within his or her technical grasp, and if this leads to the anticipated success, it is likely the product not of

innovation but of ordinary skill and common sense; in that instance, the fact that a combination was obvious to try might show that patent for it was obvious. 35 U.S.C.A. § 103.

#### **8. Patents 36(3)**

Clear and convincing prima facie case had been established that communicating and displaying steps claims of patent for auctioning municipal bonds using Internet web browser were obvious, where prior art patent taught use of Internet web browser

1320 532 FEDERAL REPORTER, 3d SERIES

both to communicate information associated with bid over electronic network and to display information associated with bid. 35 U.S.C.A. § 103.

#### **9. Patents 36(3)**

Evidence of skepticism, legally appropriate praise, copying, and commercial success was not sufficient for jury to have concluded that competitor had not proved obviousness of patent for auctioning municipal bonds using Internet web browser by clear and convincing evidence; where at least some of those secondary considerations of nonobviousness lacked requisite nexus to claims, and to extent that some of those factors arguably meet nexus requirement, their relationship to claims was simply too attenuated to overcome strong prima facie demonstration by competitor that claims were obvious. 35 U.S.C.A. § 103.

#### **10. Patents 36.1(1)**



A nexus between the merits of the claimed patented invention and evidence of secondary considerations is required in order for the evidence to be given substantial weight in an obviousness decision. 35 U.S.C.A. § 103.

#### **11. Patents 36.2(1)**

Commercial success or other secondary considerations may presumptively be attributed to the patented invention only where the marketed product embodies the claimed features, and is coextensive with them. 35 U.S.C.A. § 103.

#### **12. Patents 16(1)**

Patent claims that are broad enough to read on obvious subject matter are unpatentable even though they also read on nonobvious subject matter. 35 U.S.C.A. § 103.

#### **13. Patents 36(3)**

"Innovations in American Government" award to City of Pittsburgh for its use of patented system lacked required nexus with scope of "automatic computation step" claims to rebut prima facie showing of obviousness, since press coverage of award focused on availability of maturity-by-maturity bidding in patented system, as compared to conventional all-or-none bidding, and although both auction types had been disclosed in written description of patent, claims included conventional all-or-none bidding, as well as maturity-by-maturity bidding. 35 U.S.C.A. § 103.

#### **14. Patents (1)**

Market-force skepticism by large investment banks who had been advantaged by existing all-or-none bidding system lacked requisite nexus to claimed patented invention for auctioning municipal bonds using Internet web browser to rebut prima facie showing of obviousness, where claims included conventional all-or-none bidding, as well as maturity-by-maturity bidding. 35 U.S.C.A. § 103.

#### **15. Patents 226.8**

A conclusion of noninfringement as to the independent patent claims requires a conclusion of noninfringement as to the dependent claims.

#### **16. Patents 229**

A method patent claim is directly infringed only if each step of the claimed method is performed.

#### **17. Patents 259(1)**

Actions of bidder and auctioneer could not be combined so as to give rise to finding of direct infringement of claimed patented invention for auctioning municipal bonds using Internet web browser by auctioneer; although auctioneer controlled access to its system and instructed bidders on its use, auctioneer neither performed every step of claimed methods nor had another party, such as a bidder, perform steps on its behalf, and auctioneer was not vicariously liable for actions of bidders.

1321 532 FEDERAL REPORTER, 3d SERIES

#### **18. Patents 259(1)**

A defendant cannot avoid liability for direct patent infringement by having someone else carry out one or more of the claimed steps on its behalf.

### **19. Patents 259(1)**

Where the actions of multiple parties combine to perform every step of a claimed method, the patent claim is directly infringed only if one party exercises "control or direction" over the entire process such that every step is attributable to the controlling party, i.e., the "mastermind"; mere "arms-length cooperation" will not give rise to direct infringement by any party.

### **20. Patents 259(1)**

The control or direction standard for an allegation of multi-party patent infringement is satisfied in situations where the law would traditionally hold the accused direct patent infringer vicariously liable for the acts committed by another party that are required to complete performance of a claimed method.

### **Patents 328(2)**

5,794,219, 5,835,896. Cited as Prior Art.

### **Patents 328(2)**

6,161,099. Invalid.

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Raymond P. Niro, Niro, Scavone, Haller & Niro, of Chicago, Illinois, argued for plaintiff-appellee. With him on the brief were John C. Janka

and Sally Wiggins. Of counsel was Douglas M. Hall. Of counsel on the brief was Lisa Heinzerling, Georgetown University Law Center, of Washington, DC.

Richard L. Rainey, Covington & Burling LLP, of Washington, DC, argued for defendants-appellants. With him on the brief were Anthony Herman, and Scott C. Weidenfeller. Of counsel were Alissa K. Lipton and Peter A. Swanson.

Before GAJARSA, Circuit Judge, PLAGER, Senior Circuit Judge, and PROST, Circuit Judge.

GAJARSA, Circuit Judge.

This is a patent infringement case. Thomson Corporation and I-Deal, LLC (collectively "Thomson") appeal from a final judgment, after a jury trial, that the asserted claims of U.S. Patent No. 6,161,099 ("the '099 patent") are not obvious, that Thomson willfully infringed the asserted claims of the '099 patent, that Muniauction, Inc. is entitled to approximately \$77 million for lost profits damages enhanced for Thomson's willful infringement, and that Thomson is permanently enjoined from continued infringement of the '099 patent. *Muniauction, Inc. v. Thomson Corp.*, 502 F.Supp.2d 477 (W.D.Pa.2007). Because claims 1, 9, 14, 31, 36, and 56 of the '099 patent are obvious as a matter of law, the judgment of nonobviousness is reversed as to these claims. Similarly, because Thomson does not infringe the remaining asserted claims as a matter of

law, the judgment of infringement is reversed, and the remainder of the final judgment is vacated.

## BACKGROUND

The '099 patent is directed to electronic methods for conducting "original issuer auctions of financial instruments." '099 patent col. 2 ll. 49-50. Specifically, the '099 patent is directed to original issuer municipal bond auctions over an electronic network, e.g., the Internet, using a web browser. *Id.* at col. 1 ll. 13-15. In this type of auction, the municipality ("issuer") offers its bonds to underwriters ("bidders"), who typically bid on and purchase the entire bond offering, i.e., all-or-none bidding, and thereafter resell individual

## 1322 532 FEDERAL REPORTER, 3d SERIES

bonds to the public, *Id.* at col. 6 ll. 11-13. A bond offering may be a package of debt instruments consisting of bonds having different principle amounts and having different maturity dates. *Id.* at col. 6 ll. 19-22. A bidder submits a price and a related interest rate represented by a coupon for each of the bonds differentiated by a respective maturity date. Accordingly, the best bid is determined according to the true interest cost ("TIC") to the issuer based on the blended rates for each package of the aggregated submissions made by the bidder. *Id.* at col. 6 ll. 20-26, col. 9 ll. 4-55. In addition to all-or-none bidding, the '099 patent discloses maturity-by-maturity bidding by which a bidder may bid on less than the

entire debt offering. *Id.* at col. 5 ll. 23-65, col. 13 ll. 31-33.

The '099 patent discusses many prior art electronic auction and trading systems, yet criticizes those systems as inapplicable to original issuer auctions of financial instruments. *Id.* at col. 2 ll. 49-60. The '099 patent also discusses the Parity® electronic bid submission system, developed by 21st Century Municipals, Inc. for use in municipal bond auctions. "The PARITY bid submission system allows bidders who have previously obtained and installed appropriate software to electronically submit bids in an auction over a computer network." *Id.* at col. 3 ll. 4-7. The '099 patent criticizes the Parity® system for three reasons. First, the prior art system requires bidders to obtain and install the Parity® software prior to participating in an auction over the computer network; second, the system "is designed to be used together with fax and other bid submission methods during an auction"; and third, the system operates as a sealed bid system in which the received bids are not evaluated and no feedback is provided to the bidders until the auction closes. *Id.* at col. 3 ll. 4-12.

Accordingly, the invention of the '099 patent provides an "integrated system on a single server" that allows issuers to run the auction and bidders to prepare and submit bids using a conventional web browser, without the use of other separate software. *Id.* at col. 5 ll. 13-28. The system of the '099 patent also allows issuers to monitor the progress of the auction and allows bidders to monitor their bid vis-à-

vis the current best bid. *Id.* at col. 12 l. 60 to col. 13 l. 60. Claim 1 states:

In an electronic auction system including an issuer's computer having a display and at least one bidder's computer having an input device and a display, said bidder's computer being located remotely from said issuer's computer, said computers being coupled to at least one electronic network for communicating data messages between said computers, an electronic auctioning process for auctioning fixed income financial instruments comprising:

inputting data associated with at least one bid for at least one fixed income financial instrument into said bidder's computer via said input device;

automatically computing at least one interest cost value based at least in part on said inputted data, said automatically computed interest cost value specifying a rate representing borrowing cost associated with said at least one fixed income financial instrument;

submitting said bid by transmitting at least some of said inputted data from said bidder's computer over said at least one electronic network; and

communicating at least one message associated with said submitted bid to said issuer's computer over said at least one electronic network and displaying,



on said issuer's computer display, information associated with said bid including said computed interest cost value,

1323 532 FEDERAL REPORTER, 3d SERIES

wherein at least one of the inputting step, the automatically computing step, the submitting step, the communicating step and the displaying step is performed using a web browser.

*Id.* at col 14 l. 41 to col. 15 l. 2.

The accused process has as its genesis the Parity® system discussed in the '099 patent. Originally introduced in 1992, Parity® allowed bidders using a modem to access bid calculation software on a central server over a proprietary computer network and input data to calculate a TIC, for a given bid. Bidders could then submit a bid over the electronic network to a central server, which ordered the bids according to TICs and transmitted the bids to issuers' computers for display. In 1995, 21st Century Municipals modified Parity® to work with other bid calculation programs, including Thomson's BidComp software, originally introduced in 1988. In 1997, Thomson acquired Parity® from 21st Century Municipals and integrated the BidComp and Parity® products into a single system marketed as BidComp/Parity®. In 1998, Thomson modified BidComp/Parity® to allow issuers to view bids over the Internet using a web browser rather than over a proprietary computer network.



On June 1, 2001, Muniauction filed suit against Thomson, alleging that Thomson infringes method claims 1, 2, 9, 14, 18, 20, 24, 31, 32, 36, 40, 42, 46, and 56 of the '099 patent when it conducts auctions on its BidComp/Parity® system. After trial, a jury found that the asserted claims were not obvious and that Muniauction, Inc. was entitled to \$38,482,008 in lost profits damages for Thomson's willful infringement. On October 20, 2006, Thomson filed a motion for judgment as a matter of law ("JMOL") or a new trial, asserting, inter alia, that the claims of the '099 patent were obvious and that Thomson did not infringe the claims under the appropriate standard for joint infringement. On April 30, 2007, the Supreme Court issued *KSR International Co. v. Teleflex Inc.*, which rejected a rigid application of this court's teaching-suggestion-motivation test for obviousness. \_\_\_ U.S. \_\_\_, 127 S.Ct. 1727, 1739, 167 L.Ed.2d 705 (2007). The district court considered *KSR*, but denied Thomson's motion in all respects, enhanced the damages award to \$76.9 million, awarded \$7.7 million in pre-judgment interest, and granted a permanent injunction against Thomson. The district court entered a final judgment on July 30, 2007, and Thomson filed a timely notice of appeal on August 1, 2007. Thomson also sought a stay of the injunction pending appeal.

While the appeal was pending, this court issued two opinions relevant to issues presented by this case. First, on August 20, 2007, *In re Seagate Technology, LLC* changed the standard of willful

infringement from one akin to negligence to that of objective recklessness. 497 F.3d 1360, 1371 (Fed.Cir.2007). Second, on September 20, 2007, *BMC Resources, Inc. v. Paymentech, L.P.* held that where steps of a method claim are performed by multiple parties, the entire method must be performed at the control or direction of the alleged direct infringer. 498 F.3d 1373, 1380-81 (Fed.Cir.2007). This court thus granted Thomson's motion for a stay of the injunction pending appeal, concluding that Thomson had shown a likelihood of success on the merits under *BMC Resources. Muniauction, Inc. v. Thomson Corp.*, 07-1485, 2007 WL 2827915 (Fed.Cir. Sept. 28, 2007). We have jurisdiction over this appeal pursuant to 28 U.S.C. § 1295(a).

## DISCUSSION

[1, 2] The denial of a JMOL motion is "a procedural issue not unique to patent law, which we review under the law of the regional circuit where the appeal from the district court normally would lie." *River-*

1324 532 FEDERAL REPORTER, 3d SERIES

*wood Int'l Corp. v. RA Jones & Co.*, 324 F.3d. 1346, 1352 (Fed.Cir.2003). Under Third Circuit law, "[w]e exercise plenary review of an order granting or denying a motion for judgment as a matter of law and apply the same standard as the district court." *Lightning Lube, Inc. v. Witco Corp.*, 4 F.3d 1153, 1166 (3d.Cir.1993); see also *Juicy Whip v. Orange Bang*, 292 F.3d 728, 736 (Fed.Cir.2002).

## I. INVALIDITY

At trial and in its Motion for Judgment as a Matter of Law or for a New Trial ("JMOL Motion"), Thomson argued that the asserted claims were obvious over a proposed modification of the prior art Parity® system to incorporate the use of a web browser. *Muniauction*, 502 F.Supp.2d at 491. In its denial of Thomson's motion, the district court concluded that substantial evidence supported the jury's verdict that Thomson had not proved the invalidity of the asserted claims of the '099 patent by clear and convincing evidence. First, the district court concluded that "the jury could only reasonably have found that [Parity®] did not contain all of the elements found in the asserted claims of the '099 Patent." *Id.* Second, the court noted that the jury's verdict was supported by sufficient evidence of secondary indicia that the asserted claims were not obvious. *Id.* We disagree.

[3] When reviewing the denial of a JMOL motion, "[t]his court reviews a jury's conclusions on obviousness, a question of law, without deference, and the underlying findings of fact, whether explicit or implicit within the verdict, for substantial evidence." *Dippin' Dots, Inc. v. Mosey*, 476 F.3d 1337, 1343 (Fed.Cir.2007) (quoting *LNP Eng'g Plastics, Inc. v. Miller Waste Mills, Inc.*, 275 F.3d 1347, 1353 (Fed.Cir.2001)); accord *PharmaStem Therapeutics, Inc. v. ViaCell, Inc.*, 491 F.3d 1342, 1360 (Fed.Cir.2007) (citing *Caver v. City of Trenton*, 420 F.3d 243, 262 (3d.Cir.2005)). "Those factual

underpinnings include the scope and content of the prior art, differences between the prior art and the claims at issue, and the level of ordinary skill in the art." *Dippin' Dots*, 476 F.3d at 1343 (citing *Graham v. John Deere Co.*, 383 U.S. 1, 17-18, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966)).

[4] The first issue we address with respect to obviousness is the scope and content of the prior art--specifically whether the prior art exhibited every step of the methods claimed in independent claims 1 and 31 of the '099 patent. Thomson argues that a bidding process employing the prior art Parity® system performed every step of the claimed methods other than a web browser. Because Muniauction's expert conceded that bid submissions using Parity® performed every limitation of Claims 1 and 31 as construed by the district court, other than a web browser, no reasonable juror could find to the contrary.

At trial and on appeal, the parties dispute whether bid submissions using the Parity® system performed the step of "automatically computing at least one interest cost value based at least in part on said inputted data" (the "automatic computation step"), which appears in both independent claims 1 and 31. '099 patent col. 14 ll. 54-57, col. 17 ll. 1-5. The court noted that in the Notice of Allowability, the Examiner concluded that articles related to the trademark registration of Parity® and trade press releases supported the applicant's argument that Parity® did not perform the automatic computation step. *Muniauction*, 502 F.Supp.2d at 491; see also

Notice of Allowability, U.S.App. No. 09/087,574 at 2-3 (Aug. 24, 2000). However, the testimony of Muniauction's expert establishes that the Examiner's conclusion was incorrect under the district court's

1325 532 FEDERAL REPORTER, 3d SERIES

construction of the automatic computation step.

The district court construed the automatic computation step as "calculating, without further action by the user, an interest cost value, representing borrowing cost associated with an original issue fixed income financial instrument, based at least in part on the information put into a bidder's computer in the previous step." *Muniauction, Inc. v. Thomson Corp.*, No. 01-CV-1003 2006 WL 2372010 at 7 (Aug. 11, 2006) ("*Claim Construction Order*"). The court also concluded that the automatic computation step was not claimed as being performed in a specific location--e.g., it "could be performed on the bidder's computer, where the bid data has been inputted, or, at some other location where the data has been transferred for the purpose of computation." *Id.* at 4. On direct examination, Muniauction's liability expert, Don O'Neill, testified that Parity® "didn't do" the automatic computation step because bid calculations were performed using independent software on the bidder's computer, which were then transferred using a Parity® export file. On cross-examination, however, Mr. O'Neill clarified that his conclusion that Parity® did not perform the automatic computation step was based

on the absence of “an automatically computing calculator” in the Parity® system. Mr. O’Neill further testified that Parity® “did automatically compute a true interest cost” in the sense that bidders did not have to compute bids by hand and that Parity® re-did some of the computation done by the bidder’s software during bid preparation.

Only Mr. O’Neill’s testimony on cross-examination is relevant to the inquiry of whether the automatic computation step is disclosed by the prior art. When testifying on invalidity, “[a]n expert must ‘[compare] the construed claims to the prior art.’” *TiVo, Inc. v. EchoStar Comm’ns Corp.*, 516 F.3d 1290, 1311 (Fed.Cir.2008) (second alteration in original) (quoting *Helifix, Ltd. v. Blok-Lok, Ltd.*, 208 F.3d 1339, 1346 (Fed.Cir.2000)). As discussed above, Mr. O’Neill explicitly stated that his original conclusion on direct examination was based on the absence of “an automatically computing calculator” from Parity®, a limitation not required by the claims. The district court specifically construed the automatic computation step as capable of being performed on the bidder’s computer, *Claim Construction Order* at 4-5, and Mr. O’Neill testified that this is exactly what happened when a user submitted a bid using Parity®. Accordingly, we conclude that substantial evidence does not support a finding that the submission of bids using Parity® lacked any element of independent claims 1 and 31 other than the use of a web browser.

[5] Having ascertained the differences between the prior art Parity® system and the independent



claims of the '099 patent, we turn to the legal question of whether it would have been obvious to one of ordinary skill in the art to modify the Parity® system to incorporate conventional web browser functionality. Section 103 of Title 35 "forbids issuance of a patent when 'the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.'" *KSR Int'l Co. v. Teleflex Inc.*, \_\_\_ U.S. \_\_\_, 127 S.Ct. 1727, 1734, 167 L.Ed.2d 705 (2007) (quoting 35 U.S.C. § 103). A central principle in this inquiry is that "a court must ask whether the improvement is more than the predictable use of prior art elements according to their established functions." *Id.* at 1740. On the record before us, we answer this question in the negative and conclude that claims 1 and 31 of the '099 patent are obvious as a matter of law.

### 1326 532 FEDERAL REPORTER, 3d SERIES

When the '099 patent's application was filed on May 29, 1998, the use of web browsers was well known. Indeed, the written description of the '099 patent itself identifies the invention as using "a conventional Internet browser," '099 patent, Abstract, and "conventional web browsing software," *id.* at col. 6 l. 43. The use of "conventional" to modify "Internet browser" and "web browsing software" denotes a reference to web browsers in existence at the time of the alleged invention of the '099 patent. See *PC Connector Solutions LLC v. SmartDisk Corp.*,

406 F.3d 1359, 1363 (Fed.Cir.2005) (concluding that term “conventional” is implicitly time dependent and construing “the literal scope of the claim limitations qualified by th[at] term[] as being limited to technologies existing at the time of the invention”). We therefore begin with an understanding that the modification of Parity® to incorporate web browser functionality represents a combination of two well known prior art elements to a person of ordinary skill in the art.

[6] In our analysis of the obviousness of independent claims 1 and 31, we recognize our obligation to guard against any hindsight bias, see *Graham v. John Deere Co.*, 383 U.S. 1, 36, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966), but we note that the use of the internet and web browser technology to conduct electronic auctions was well-established at the time the ‘099 patent application was filed. For example, U.S. Patent No. 5,794,219, filed on February 20, 1996,<sup>1</sup> discloses an online auction wherein bids are submitted using internet browsers such as Netscape. ‘219 patent Fig. 1, col. 5 ll. 14-30. Similarly, U.S. Patent No. 5,835,896, filed on March 29, 1996,<sup>2</sup> also discloses the use of the World Wide Web and a web browser to conduct an electronic auction, ‘896 patent Fig. 3, col. 6 ll. 23-38. Although neither the ‘219 patent nor the ‘896 patent

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<sup>1</sup> Although the ‘219 patent did not issue until after the ‘099 patent was filed, it is prior art to the ‘099 patent under 35 U.S.C. § 102(e)(2)- “a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent.”

<sup>2</sup> The ‘896 patent is also § 102(e)(2) prior art to the ‘099 patent.



specifically address original issuer auctions of financial instruments, “[w]hen a work is available in one field of endeavor, design incentives and other market forces can prompt variations of it, either in the same field or a different one.” *KSR*, 127 S.Ct. at 1740. With regard to this case, a speech given in May of 1996 at a meeting of the Government Finance Officer’s Association (“GFOA”) explicitly addressed the desirability of using World Wide Web technology to distribute debt issue to consumers. Girard Miller, Technical Servs. Dir., GFOA, Speech at the 1996 General Session of the GFOA Conference (May 18-22, 1996). At a minimum, this speech suggests “the effects of demands known to the design community or present in the marketplace,” *KSR*, 127 S.Ct. at 1740, thereby indicating the obviousness of the claimed combination.

[7] Finally, the combination of known elements present in this case is quite similar to that in *Leapfrog Enterprises, Inc. v. Fisher-Price, Inc.*, 485 F.3d 1157 (Fed.Cir.2007). In *Leapfrog*, the court ruled that “[a]ccommodating a prior art mechanical device that accomplishes [the goal of teaching a child to read phonetically] to modern electronics would have been reasonably obvious to one of ordinary skill in designing children’s learning devices.” 485 F.3d at 1161. The court reached this result based in part on its reasoning that “[a]pplying modern electronics to older mechanical devices has been commonplace in recent years.” *Id.* The record in this

case demonstrates that adapting existing electronic processes to incorporate modern internet and web browser technology was similarly commonplace at the time the '099 patent application was filed.

When there is a design need or market pressure to solve a problem and there are a finite number of identified, predictable solutions, a person of ordinary skill has good reason to pursue the known options within his or her technical grasp. If this leads to the anticipated success, it is likely the product not of innovation but of ordinary skill and common sense. In that instance the fact that a combination was obvious to try might show that it was obvious under § 103.

*KSR*, 127 S.Ct. at 1742.

[8] Muniauction argues, notwithstanding this trend, that the incorporation of web browser functionality into existing electronic prior art systems was nevertheless beyond the ability of a person of ordinary skill in the art at the time the '099 patent application was filed. In particular, Muniauction claims that a person of ordinary skill would not have known how to use a web browser to implement certain steps of methods claimed in the '099 patent. Thomson responds by noting that the '219 patent teaches the use of a web browser both to communicate information associated with a bid over an electronic network and to display information associated with a bid. In light of this teaching, we are not persuaded by Muniauction's argument that a

person of ordinary skill would not have known how to implement the communicating and displaying steps of the '099 patent with a web browser during the relevant time period.<sup>3</sup>

[9] Under the foregoing analysis, we conclude that Thomson has clearly and convincingly established a *prima facie* case that claims 1 and 31 of the '099 patent are obvious as a matter of law. Accordingly, we turn to Muniauction's attempt to rebut this *prima facie* case with secondary considerations of nonobviousness.

In its denial of Thomson's JMOL motion, the district court noted that "[p]laintiff presented evidence of skepticism, legally appropriate praise, copying, and commercial success." *Muniauction*, 502 F.Supp.2d at 491. The district court ruled that the evidence presented by Muniauction on these secondary considerations was sufficient for the jury to have concluded that Thomson failed to prove obviousness by clear and convincing evidence. *Id.* We disagree for two reasons. First, at least some of the factors argued by Muniauction lack the requisite

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<sup>3</sup> Because the '099 patent is itself silent regarding how to actually implement the methods claimed therein with a web browser, Muniauction's argument therefore might suggest that the claims present an enablement issue, rather than support a conclusion of nonobviousness. See, e.g., *Sitrick v. Dreamworks, LLC*, 516 F.3d 993, 999 (Fed.Cir.2008) ("The 'enablement requirement is satisfied when one skilled in the art, after reading the specification, could practice the claimed invention without undue experimentation." (quoting *AK Steel Corp. v. Sollac*, 344 F.3d 1234, 1238-39 (Fed.Cir.2003))).

nexus to the claims. Second, to the extent that some of the factors arguably meet the nexus requirement, their relationship to the claims is simply too attenuated to overcome the strong prima facie demonstration by Thomson that the claims are obvious.

[10, 11] For us to accord substantial weight to the secondary considerations proffered by Muniauction, “[a] nexus between the merits of the claimed invention and evidence of secondary considerations is required in order for the evidence to be given substantial weight in an obviousness decision.” *Ruiz v. A.B. Chance Co.*, 234 F.3d 654, 668 (Fed.Cir.2000) (quoting *Simmons Fastener Corp. v. Ill. Tool Works, Inc.*, 739 F.2d 1573, 1575 (Fed.Cir.1984))).

#### 1328 532 FEDERAL REPORTER, 3d SERIES

Put another way, commercial success or other secondary considerations may presumptively be attributed to the patented invention only where “the marketed product embodies the claimed features, and is coextensive with them.” *Ormco Corp. v. Align Tech., Inc.*, 463 F.3d 1299, 1311-12 (Fed.Cir.2006) (quoting *Brown & Williamson Tobacco Corp. v. Philip Morris Inc.*, 229 F.3d 1120, 1130 (Fed.Cir.2000)).

[12-14] Muniauction claims, for example, that legally appropriate praise in the form of an “Innovations in American Government” award to the City of Pittsburgh for its use of the Muniauction

system tends to rebut any prima facie showing of obviousness. The press coverage of the award in the record, however, focuses on the availability of maturity-by-maturity bidding in the Muniauction system, as compared to the conventional all-or-none bidding. Although both auction types are disclosed in the written description of the '099 patent, see '099 patent col. 5 ll. 23-65, col. 13 ll. 31-33; claims 1 and 31 include conventional all-or-none bidding, as well as maturity-by-maturity bidding. Thus, the 1999 award lacks the required nexus with the scope of the claims.<sup>4</sup> In addition, the same press coverage of the Innovations in American Government award also demonstrates that the source of much of the skepticism was the large investment banks who were advantaged by the existing all-or-none bidding system. This type of market-force skepticism also lacks the requisite nexus to the claimed invention. Finally, as to any remaining secondary considerations, the evidence is simply inadequate to overcome a final conclusion that independent claims 1 and 31 are obvious as a matter of law. *Cf. Leapfrog*, 485 F.3d at 1162 ("given the strength of the prima facie obviousness showing, the evidence on secondary considerations was inadequate to overcome a final conclusion that claim 25 would have been obvious").

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<sup>4</sup> We further note that our conclusion as to the nexus between this award and the claims is consistent with the long-established rule that "[c]laims which are broad enough to read on obvious subject matter are unpatentable even though they also read on nonobvious subject matter." *In re Lintner*, 458 F.2d 1013, 1015 (CCPA 1972) (citing *In re Mraz*, 59 C.C.P.A. 866, 455 F.2d 1069, 1073 (CCPA 1972)).

In addition to independent claims 1 and 31, Mr. O'Neill also testified that elements of certain asserted dependent claims were also performed when an electronic bid was submitted using the Parity® system. In particular, O'Neill testified that Parity® met the limitations of claims 9, 14, 36, and 56. Accordingly, these claims are also obvious under our analysis of independent claims 1 and 31. Because we do not reach a similar conclusion with respect to the remaining dependent claims--2, 18, 20, 24, 32, 40, 42, and 46--we must consider whether they are infringed by Thomson.

## II. NONINFRINGEMENT

[15-17] Turning to infringement of the remaining dependent claims, the only theory of infringement presented by Muniauction is that of so-called joint infringement. The law of this circuit is axiomatic that a method claim is directly infringed only if each step of the claimed method is performed. *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1378-79 (Fed.Cir.2007) (citing cases). With respect to the '099 patent, the parties do not dispute that no single party performs every step of the asserted claims. For example, at least the inputting step of claim 1 is completed by the bidder,<sup>5</sup> whereas at least a majority

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<sup>5</sup> The inputting step of claim 1 requires "inputting data associated with at least one bid for at least one fixed income financial instrument into said bidder's computer via said input device." Although we conclude that claims 1 and 31 are invalid as a matter of law, we will, for convenience confine our infringement analysis to these independent claims. A



## 1329 532 FEDERAL REPORTER, 3d SERIES

of the remaining steps are performed by the auctioneer's system (e.g., Thomson's BidComp/Parity® system). The issue is thus whether the actions of at least the bidder and the auctioneer may be combined under the law so as to give rise to a finding of direct infringement by the auctioneer.

[18, 19] In *BMC Resources*, this court clarified the proper standard for whether a method claim is directly infringed by the combined actions of multiple parties. The court's analysis was founded on the proposition that direct infringement requires a single party to perform every step of a claimed method. 498 F.3d at 1380 (concluding that this requirement derived directly from 35 U.S.C. § 271(a)); *see also* *NTP, Inc. v. Research in Motion*, 418 F.3d 1282, 1317-18 (Fed.Cir.2005) (holding that users of accused system could not infringe method claims in the United States because one step of the method was performed in Canada). Yet the court recognized a tension between this proposition and the well-settled rule that "a defendant cannot thus avoid liability for direct infringement by having someone else carry out one or more of the claimed steps on its behalf." *Id.* at 1379. Accordingly, where the actions of multiple parties combine to perform every step of a claimed

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conclusion of noninfringement as to the independent claims requires a conclusion of noninfringement as to the dependent claims, *See. e.g., Monsanto Co. v. Syngenta Seeds, Inc.* 503 F.3d 1352, 1359 (Fed.Cir.2007).

method, the claim is directly infringed only if one party exercises "control or direction" over the entire process such that every step is attributable to the controlling party, i.e., the "mastermind." *Id.* at 1380-81. At the other end of this multi-party spectrum, mere "arms-length cooperation" will not give rise to direct infringement by any party. *Id.* at 1371.

Under *BMC Resources* then, the issue of infringement in this case turns on whether Thomson sufficiently controls or directs other parties (e.g., the bidder) such that Thomson itself can be said to have performed every step of the asserted claims. In its denial of Thomson's JMOL motion, before *BMC Resources* issued, the district court purported to apply the standards of *On Demand Machine Corp. v. Ingram Industries, Inc.*, 442 F.3d 1331 (Fed.Cir.2006). The district court read that case as requiring, a connection less than "direct control," and thus found that "[t]here was sufficient evidence for the jury to have found the required connection between defendants, the bidders to whom they charge a fee for their services, and the issuers for whom they facilitate auctions, under the appropriate legal standards as set forth in the instructions." *Muniauction*, 502 F.Supp.2d at 492. The jury instruction on joint infringement read as follows:

Consider whether the parties are acting jointly or together in relation to the electronic auction process. Are they aware of each other's existence and interacting with each other in relation to the electronic auction process? Is there one party teaching, instructing, or



facilitating the other party's participation in the electronic auction process? These are the types of questions that you should ask in making your decision on this issue. If you find that there is a sufficient connection between Thomson and the bidders and the issuers that used Thomson's process, then you could find Thomson liable for direct infringement.

However, this court in *BMC Resources* explicitly affirmed a reading of *On Demand* as "not in any way rely[ing] on the relationship between the parties."  
498

#### 1330 532 FEDERAL REPORTER, 3d SERIES

F.3d at 1380. Moreover, none of the questions identified by the jury instruction are relevant to whether Thomson satisfies the "control or direction" standard of *BMC Resources*. That Thomson controls access to its system and instructs bidders on its use is not sufficient to incur liability for direct infringement.

[20] Under *BMC Resources*, the control or direction standard is satisfied in situations where the law would traditionally hold the accused direct infringer vicariously liable for the acts committed by another party that are required to complete performance of a claimed method. 498 F.3d at 1379; *accord Int'l. Rectifier v. Samsung Elecs. Co.*, 361 F.3d 1355, 1361 (Fed.Cir.2004) (reversing district court's ruling that Samsung violated a permanent

injunction prohibiting infringement in the United States on the grounds that Samsung did not control or participate in the extraterritorial activities of a third party such that the acts of the third party were not attributable to Samsung). In this case, Thomson neither performed every step of the claimed methods nor had another party perform steps on its behalf, and Muniauction has identified no legal theory under which Thomson might be vicariously liable for the actions of the bidders. Therefore, Thomson does not infringe the asserted claims as a matter of law.

### CONCLUSION

Because we conclude that claims 1, 9, 14, 31, 36, and 56 are obvious, the judgment that these claims are valid is reversed. Because we conclude that claims 2, 18, 20, 24, 32, 40, 42, and 46 are not infringed, the infringement judgment is also reversed. Finally, given our holdings on invalidity and noninfringement, we need not consider Thomson's remaining arguments presented on appeal. Accordingly, the remainder of the district court's judgment is vacated.

### *REVERSE-IN-PART AND VACATE-IN-PART.*

### COSTS

Costs to Thomson.

**Appendix C - Order of the United States Court of  
Appeals for the Federal Circuit Denying  
Petition for Rehearing  
Dated September 25, 2008**

**UNITED STATES COURT OF APPEALS FOR THE  
FEDERAL CIRCUIT**

2007-1485

**MUNIAUCTION, INC. (doing business as Grant  
Street Group),  
Plaintiff-Appellee,**

**v.**

**THOMSON CORPORATION (trading and doing  
business as Thomson Financial LLC and Thomson  
Financial Municipals Group) and I-DEAL, LLC,  
Defendants-Appellants.**

**Appeal from the United States District Court for the  
Western District of Pennsylvania in case no. 01-CV-  
1003, Judge Gary L. Lancaster.**

**ORDER**

**NOTE: This order is nonprecedential.**

**UNITED STATES COURT OF APPEALS FOR THE  
FEDERAL CIRCUIT**

## ORDER

A combined petition for panel rehearing and for rehearing en banc having been filed by the Appellee,\* and a response thereto having been invited by the court and filed by the Appellants, and the petition for rehearing and response, having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on October 2, 2008.

FOR THE COURT

/s/ Jan Horbaly

Jan Horbaly

Clerk

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\* Amici Curiae, Production Resource Group LLC and Intellectual Property Owners Association were granted leave to file briefs in support of the Appellee's combined petition for panel rehearing and for rehearing en banc.

40c

Dated: 09/25/2008

cc: Richard L. Rainey  
Raymond P. Niro  
Herbert C. Wamsley, Scott C. Harris

FILED  
U.S. COURT OF APPEALS FOR  
THE FEDERAL CIRCUIT  
SEP 25 2008  
JAN HORBALY  
CLERK

**Appendix D - Portions of Jury Instructions Given in  
MuniAuction, Inc. v. Thomson Corporation - Civil  
Action No. 01-1003 in the United States District  
Court for the Western District of Pennsylvania  
Dated October 4, 2006**

**IN THE UNITED STATES DISTRICT COURT FOR  
THE WESTERN DISTRICT OF PENNSYLVANIA**

**MUNIAUCTION, INC., t/d/b/a  
GRANT STREET GROUP, INC.,  
Plaintiff**

**vs. Civil Action 01-1003**

**THOMSON CORPORATION, t/d/b/a  
THOMSON FINANCIAL and/or  
THOMSON FINANCIAL MUNICIPALS  
GROUP and i-DEAL, LLC,  
Defendant.**

**Transcript of Jury Trial Proceedings on Wednesday,  
October 4, 2006, United States District Court,  
Pittsburgh, Pennsylvania, before Gary L. Lancaster,  
District Judge.**

**APPEARANCES:**

**For the Plaintiff: Raymond P. Niro, Esq.**

**Sally J. Wiggins, Esq.**

**Douglas M. Hall, Esq.**

**John C. Janka, Esq.**

**NIRO, SCAVONE, HALLER & NIRO**

For the Defendants:       James L. Quarles, III, Esq.  
                              William G. McElwain, Esq.  
                              C. Colin Rushing, Esq.  
                              WILMER, CUTLER, PICKERING  
                              HALE & DORR

Court Reporter:     Juliann A. Kienzle, RMR, CRR  
                              Fifth Floor USPO & Courthouse  
                              700 Grant Street

\*\*\*\*\*

## PARITY.

Deciding whether a claim has been directly infringed is a two-step process. First, the meaning of a patent claim is determined as a matter of law, that is, that job is mine. Now, I will tell you shortly where to find what I have already decided the key terms of the claim and what they mean. In the second step, you must compare each claim as I have interpreted it, to the accused process to determine whether every step of the claim can be found. This comparison is your responsibility as the jurors.

Thomson claims that it does not directly infringe the '099 patent because it does not, personally, perform all of the steps required by the claims. You will see that the '099 patent claims refer to steps that are taken by different people such as issuers, bidders, and maybe other parties. Thomson claims that because it is neither a bidder nor an

issuer, it cannot perform all the steps required by the claims, and, therefore cannot be held liable for infringing the claim.

However, a party cannot avoid infringement by having another party perform one or more of the required steps in the patented process. Rather, the party can be found liable for infringement of a method claim where different people perform discrete steps of the process if the different people performing the different steps have some connection to

each other. Here, we're not talking about a physical connection, such as two people being connected by a computer, or a legal connection such as two people being a subdivision of the same company. That's not what we mean. Rather, this connection requires you consider the relationship between the parties and how that relationship relates to electronic auction process.

Where the infringement is a result of the participation and combined actions of one or more people, they are joint infringers and are jointly liable for the infringement. Consider whether the parties are acting jointly or together in relation to the electronic auction process. Are they aware of each other's existence and interacting with each other in relation to the electronic auction process? Is there one party teaching, instructing or facilitating the other party's participation in the electronic auction



process? These are the types of questions that you should ask in making your decision on this issue. If you find that there is a sufficient connection between Thomson and the bidders and the issuers that used Thomson's process, then you could find Thomson liable for direct infringement. You will need to look at all the evidence regarding the relationship that exists between Thomson and the bidders and the issuers and determine whether there is a sufficient connection among them to warrant holding Thomson liable for infringement.

\*\*\*\*\*

**Appendix E - Jury Verdict in MuniAuction, Inc. v.  
Thomson Corporation - Civil Action No. 01-1003 in  
the United States District Court for the  
Western District of Pennsylvania  
Dated October 5, 2006**

**IN THE UNITED STATES DISTRICT COURT FOR  
THE WESTERN DISTRICT OF PENNSYLVANIA**

**MUNIAUCTION, INC.,  
Plaintiff,**

**v.**

**Civil Action 01-1003**

**THOMSON CORPORATION and  
I-DEAL, LLC,  
Defendants.**

**VERDICT**

**QUESTION #1: Are the Claims of the '099 Patent  
INFRINGED?**

Claim 1:      Infringed   x    
                 Not Infringed     

*If you have found that Claim 1 is Infringed,  
then go to Claim 2 and decide whether the following  
six dependant claims are also infringed.*

*If Claim 1 is Not Infringed, then the following  
six dependant claims are automatically Not*

*Infringed, and you need not consider them separately.  
Instead, go directly to Claim 31.*

Claim 2:      Infringed x  
                 Not Infringed \_\_

Claim 9:      Infringed x  
                 Not Infringed \_\_

Claim 14:     Infringed x  
                 Not Infringed

Claim 18:     Infringed x  
                 Not Infringed \_\_

Claim 20:     Infringed x  
                 Not Infringed \_\_

Claim 24:     Infringed x  
                 Not Infringed \_\_

*Now go to Claim 31.*

Claim 31:     Infringed x  
                 Not Infringed \_\_

*If you have found that Claim 31 is Infringed,  
decide whether the following six dependant claims  
are also infringed.*

*If Claim 31 is Not Infringed, then the following  
six dependant claims are automatically also Not  
Infringed, and you need not consider them separately.  
Instead, go to Question #2.*

Claim 32:    Infringed   x    
               Not Infringed   \_\_  

Claim 36:    Infringed   x    
               Not Infringed   \_\_  

Claim 40:    Infringed   x    
               Not Infringed   \_\_  

Claim 42:    Infringed   x    
               Not Infringed   \_\_  

Claim 46:    Infringed   x    
               Not Infringed   \_\_  

Claim 56:    Infringed   x    
               Not Infringed   \_\_  

*Now go to Question #2.*

**READ THIS NOTE BEFORE YOU ANSWER**  
**QUESTION #2:** *Answer Question #2 only if you have found in Question #1 that at least one of the claims of the '099 Patent has been infringed.*

*Whether the infringement was willful, or not, may affect damages, but it does not affect infringement. If you find that the infringement was willful, I will decide what effect that has on damages.*

**QUESTION #2:** Was Thomson's infringement of the '099 Patent **WILLFUL?**

Yes: x      No:   

Now go to Question #3.

**READ THIS NOTE BEFORE YOU ANSWER**  
**QUESTION #3:** Answer Question #3 only if you have found in Question #1 that at least one of the claims of the '099 Patent has been infringed.

*If you find that a claim was "Obvious", then that claim of MuniAuction's patent is invalid, and even if you found that the same claim was infringed in Question #1, Thomson will not be liable for the infringement. If you find that a claim was "Not Obvious", and that same claim was infringed in Question #1, then Thomson will be held liable for some sort of damages as a result of the infringement.*

**QUESTION #3:** Are the infringed claims of the '099 Patent invalid because the invention would have been **OBVIOUS** at the time the invention was made?

Claim 1:      Obvious     
              Not Obvious x

Claim 2:      Obvious     
              Not Obvious x

Claim 9:      Obvious     
              Not Obvious x

Claim 14:     Obvious     
              Not Obvious x

- Claim 18: Obvious \_\_\_  
Not Obvious x
- Claim 20: Obvious \_\_\_  
Not Obvious x
- Claim 24: Obvious \_\_\_  
Not Obvious x
- Claim 31: Obvious \_\_\_  
Not Obvious x
- Claim 32: Obvious \_\_\_  
Not Obvious x
- Claim 36: Obvious \_\_\_  
Not Obvious x
- Claim 40: Obvious \_\_\_  
Not Obvious x
- Claim 42: Obvious \_\_\_  
Not Obvious x
- Claim 46: Obvious \_\_\_  
Not Obvious x
- Claim 56: Obvious \_\_\_  
Not Obvious x

*Now go to Question #4.*

READ THIS NOTE BEFORE YOU CONTINUE: Only answer Question #4 if you have answered INFRINGEMENT to at least one claim in Question #1 and NOT OBVIOUS to that same claim in Question #3.

**QUESTION #4:** What amount of lost profits damages, if any, is MuniAuction entitled to?

**LOST PROFITS**      \$          38,482,008.00  
  (handwritten)

Now go to Question #5.

**QUESTION #5:** If MuniAuction is entitled to damages, but has not proven that it is entitled to lost profit damages, what amount of reasonable royalty is appropriate?

**REASONABLE ROYALTY** \$ \_\_\_\_\_



**Appendix F - Order for Permanent Injunction of the  
United States District Court for the  
Western District of Pennsylvania  
Date Docketed July 31, 2007**

**IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF  
PENNSYLVANIA**

**MUNIAUCTION, INC.,  
Plaintiff**

**v. Civil Action 01-1003**

**THOMSON CORP., and  
I-DEAL, LLC,  
Defendants.**

**ORDER FOR PERMANENT INJUNCTION**

AND NOW, this 30th day of July, 2007, upon consideration of the four factors predicate to the granting of injunctive relief, which factors weigh in favor of granting injunctive relief, IT IS HEREBY ORDERED as follows:

That the reasoning and discussion set forth in detail in this court's memorandum and order of this same date are hereby incorporated as the basis for entry of the instant permanent injunction;

That defendants Thomson Corporation and iDeal, LLC, their officers, agents, servants,

employees, affiliates, successors, and assigns (collectively, "Thomson"), and any and all persons acting in concert or participation with them who receive actual notice of this order, are hereby enjoined from further infringement of claims 1, 2, 9, 14, 18, 20, 24, 31, 32, 36, 40, 42, 46, and 56 of United States Patent Number 6,161,099;

That Thomson is enjoined from using, allowing others to use, selling, or offering to sell, the Parity electronic bid submission system as it existed at the time of trial;

That Thomson is further enjoined from using, allowing others to use, selling, or offering to sell any other electronic bid submission system that allows the inputting step, automatically computing step, submitting step, communicating step, or displaying step to be accomplished by use of a web browser, as described in the claims of the '099 Patent asserted in this case.

BY THE COURT,  
/s/ Gary L. Lancaster, J.

cc: All Counsel of Record

**Appendix G - MuniAuction, Inc. v. Thomson Corp.,  
502 F.Supp.2d 477 (W.D. Pa. 2007)**

Memorandum and Order of the United States  
District Court for the Western District of  
Pennsylvania Denying JMOL  
Dated July 31, 2007

477 502 FEDERAL SUPPLEMENT, 2d SERIES

MUNIAUCTION, INC., Plaintiff,  
v.  
THOMSON CORP. and i-Deal, LLC, Defendants.

Civil Action No. 01-1003.

United States District Court,  
W.D. Pennsylvania.

July 31, 2007.

**Background:** Patent owner brought action against competitor alleging infringement of patent for auctioning municipal bonds using Internet web browser. Owner brought motion for permanent injunction.

**Holdings:** The District Court, Lancaster, J., held that:

(1) equities weighed in favor of granting permanent injunctive relief to owner;

(2) award prejudgment interest on compensatory damages award was warranted at prime rate, plus one percent weighted average interest rate, compounded yearly, over period of infringement of patent;

(3) award of enhanced damages was appropriate;

478 502 FEDERAL SUPPLEMENT, 2d SERIES

(4) doubling of jury's substantial damages award was warranted;

(5) jury was free to disregard, or discredit, testimony from witness for competitor that was far from dispositive and incomplete on its face, and assess demeanor and credibility of that witness when deciding whether to accept or reject her testimony;

(6) jury's lost profit damages award was within reason;

(7) owner presented sufficient economic evidence to support all aspects of its lost profits damages theory; and

(8) competitor did not prove by clear and convincing evidence that claims of patent were obvious.

Motion granted.

# 1. Injunction 9

Plaintiff seeking permanent injunction must demonstrate that: (1) it has suffered irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering balance of hardships between plaintiff and defendant, remedy in equity is warranted; and (4) public interest would not be disserved by permanent injunction.

## **2. Patents 317**

Owner of patent for auctioning municipal bonds using Internet web browser would suffer irreparable injury, for which there was no adequate remedy at law, from continued infringement of its patent by competitor were permanent injunction not granted; owner would suffer encroachment on its patent rights, loss of customers, price erosion, harm to reputation, and diminished market share.

## **3. Patents 317**

Balance of hardships favored permanent injunction against continued infringement of patent for auctioning municipal bonds using Internet web browser; patent owner would suffer continued encroachment on its patent rights, loss of customers, price erosion, harm to reputation, and diminished market share, while competitor would suffer little, if any, logistical and financial burden were injunction to issue.

## **4. Patents 317**

Public interest would be served by permanent injunction against continued infringement of patent for auctioning municipal bonds using Internet web

browser; there were numerous low-cost, easily executed replacements for infringing system.

### **5. Courts 96(7)**

In a patent case, the award of prejudgment interest is controlled by regional circuit law.

### **6. Interest 31, 60**

Award of prejudgment interest on compensatory damages award was warranted at prime rate, plus one percent weighted average interest rate, compounded yearly, over period of infringement of patent, since patent owner would not have been forced to borrow money had competitor not infringed and that was actual rate at which patent owner borrowed money during period of infringement, and thus that rate most accurately reflected full compensatory award to owner.

### **7. Interest 39(2.20)**

Prejudgment interest is awarded to make a patent plaintiff whole; it represents the time value of the money lost during the period of infringement.

### **8. Interest 27, 60**

A district court is charged with setting the appropriate rate at which prejudgment interest should be awarded, and determining the appropriate method of compounding.

479 502 FEDERAL SUPPLEMENT, 2d SERIES

### **9. Patents 319(3)**

Award of enhanced damages based on jury finding of wilful patent infringement was appropriate; despite opinion letter from counsel, jury could have believed that patent owner had proved deliberate copying, competitors abused claim, construction process, issue of infringement or invalidity was not close, competitors started infringing patent on day that it was issued and continued to do so although design around was quick and cheap solution, competitors priced their product at zero in order to harm owner's business, and competitors did not take remedial action. 35 U.S.C.A. § 284.

#### **10. Patents 319(3)**

Although a finding of willful infringement authorizes the award of enhanced damages, it does not mandate such an award; instead, a court must look to the totality of the circumstances of the case, considering both aggravating and mitigating facts, before reaching a determination of whether, and to what extent, it should exercise its discretion and award enhanced damages. 35 U.S.C.A. § 284.

#### **11. Patents 319(3)**

When determining whether damages should be enhanced, a court considers: (1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that the patent was invalid or not infringed; (3) the infringer's behavior as a party to the litigation; (4) defendant's size and financial condition; (5) closeness



of the case; (6) duration of defendant's misconduct; (7) remedial action by the defendant; (8) defendant's motivation for harm; and (9) whether defendant attempted to conceal its misconduct. 35 U.S.C.A. § 284.

#### **12. Patents 319(3)**

A court may consider size of damages award on motion for enhanced damages for patent infringement. 35 U.S.C.A. § 284.

#### **13. Patents 318(1)**

In a patent infringement case, lost profit damages are not based on the income earned by the infringer; instead, such damages are representative of the profits lost by the patent holder.

#### **14. Patents 319(3)**

Doubling of jury's substantial damages award was warranted on motion for enhanced damages in patent infringement lawsuit, where eight out of nine factors used in considering enhanced damages weighed in favor of enhancement, jury rendered verdict of willful infringement, and there were no mitigating circumstances. 35 U.S.C.A. § 284.

#### **15. Federal Civil Procedure 2608.1, 2609**

A motion for judgment as a matter of law will be granted only if, viewing the evidence in the light most favorable to the nonmovant and giving it the advantage of every fair and reasonable inference, there is insufficient evidence from which a jury reasonably could reach its verdict. Fed.Rules Civ.Proc.Rule 50(b), 28 U.S.C.A.

**16. Federal Civil Procedure 2609**

On a motion for judgment as a matter of law, when determining whether the evidence is sufficient to sustain the jury's verdict, the court cannot reweigh the evidence, determine the credibility of witnesses, or substitute its version of the facts for the jury's version. Fed.Rules Civ.Proc.Rule 50(b), 28 U.S.C.A.

**17. Federal Civil Procedure 2311**

A moving party may be granted a new trial even when the court determines that

480 502 FEDERAL SUPPLEMENT, 2d SERIES

entry of judgment as a matter of law in that party's favor is not appropriate.

**18. Federal Civil Procedure 2338.1, 2339**

A new trial should be granted only when the verdict is contrary to the great weight of the evidence, or when a miscarriage of justice would result if the verdict were to stand.

**19. Federal Civil Procedure 2339**

A new trial because the verdict is against the great weight of the evidence should be granted only when the record shows that the jury's verdict resulted in a miscarriage of justice or where the verdict, on the record, cries out to be overturned or shocks the conscience.

**20. Patents 314(5)**

Jury was free to disregard, or discredit, testimony from witness for competitor that was far from dispositive and was incomplete on its face, and assess demeanor and credibility of that witness in deciding whether to accept or reject her testimony, when considering whether competitor infringed patent with regard to particular activity.

#### **21. Patents 235(1)**

An accused product that sometimes, but not always, embodies a claimed method in a patent nevertheless infringes.

#### **22. Patents 318(1)**

Jury's lost profit damages award, which found that prior art and other non-electronic bid submission systems were not alternatives to patented electronic system, with its added features and benefits, was within reason; although competitor alleged that there were acceptable non-infringing alternatives in the marketplace, there was evidence demonstrating that non-electronic bid systems did not provide benefits of electronic bid systems and were not acceptable substitutes.

#### **23. Patents 312(10)**

Patent owner presented sufficient economic evidence to support all aspects of its lost profits damages theory, where owner's expert recognized in his market analysis that some portion of competitor's customers would not move their business to owner, witness offered explanation to jury as to why there was such drastic price disparity between owner's system and accused system, and owner presented

evidence of two supplier market; although competitor presented counter-evidence to jury in support of its version of facts, basis existed for jury to be convinced by owner's evidence.

#### **24. Patents 36(3), 36.1(1)**

Competitor did not prove by clear and convincing evidence that claims of patent were obvious, where Patent and Trademark Office determined that prior art did not perform step of automatically computing at least one interest cost value, or confirm bid parameters, as claimed in patent, those claim elements did not appear in any other piece of prior art and those elements were not otherwise obvious, and owner presented secondary consideration evidence of skepticism, legally appropriate praise, copying, and commercial success to shed light on circumstances surrounding origin of patented subject matter.

#### **25. Patents 314(5)**

Where the content of the prior art, the scope of the patent claim, and the level of ordinary skill in the art are not in dispute, the question of whether a patent is obvious can be decided as a matter of law.

#### **26. Patents 16.13**

The ultimate judgment of obviousness is a legal question, although based on factual determinations.

481 502 FEDERAL SUPPLEMENT, 2d SERIES

#### **27. Patents 16(2, 3)**

A ruling on an obviousness defense or counterclaim is made after considering: (1) the scope and content of the prior art; (2) the differences between the prior art and the patent claims at issue; and (3) the level of ordinary skill in the pertinent art.

#### **28. Patents 36.1(1)**

Evidence of secondary considerations may be used to shed light on the question of obviousness of a patent.

#### **29. Patents 287(1)**

Joint infringement of patent for auctioning municipal bonds using Internet web browser could be established where there was connection between competitor, bidders who were charged fee for services provided, and issuers for whom auctions had been facilitated; direct control by competitor was not required.

#### **30. Patents 314(5)**

Opinion letter from counsel that concluded that competing product would not infringe patent did not conclusively resolve question of whether competitor willfully infringed patent, even if opinion letter was top notch and relied upon in good faith; issue of whether letter provided competitor with reasonable, good faith belief that patent was invalid or not infringed was for jury to decide.

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Anthony Herman, Richard L. Rainey, Covington & Burling LLP, Washington, DC, Cathy Bissoon, Cohen & Grigsby, PC, Pittsburgh, PA, for Defendants.

*MEMORANDUM and ORDER*

LANCASTER, District Judge.

This is an action in patent infringement. On October 5, 2006, a jury found that defendants willfully infringed plaintiff's patent and awarded plaintiff more than \$38 million in lost profit damages. In doing so, the jury rejected defendants' contention that the asserted patent claims were obvious, and therefore, invalid.

Following trial, the court met with counsel, which included new counsel for defendants, and encouraged the parties to resolve their dispute. To that end, the court referred the case to retired United States District Judge Donald E. Ziegler, Jr. for mediation, and stayed all further proceedings. We lifted the stay and set forth a briefing schedule for post-trial motions after attempts at compromise failed. All submissions have been received under that schedule, and the court is prepared to rule on the outstanding motions.

Pending before the court are the following:

- (1) Plaintiff's Motion for a Permanent Injunction [doc. no. 322];
- (2) Plaintiff's Motion to Tax Prejudgment Interest [doc. no. 327];
- (3) Plaintiff's Motion for Enhanced Damages [doc. no. 332];
- (4) Defendants' Motion for Judgment as a Matter of Law or for a New Trial [doc. no. 344]; and
- (5) Defendants' Motion for a Hearing [doc. no. 382].

In addition, both parties have sought leave to file supplemental memoranda of law addressing the Supreme Court's recent decision in *KSR Int'l Co. v. Teleflex Inc.*, \_\_\_ U.S. \_\_\_, 127 S.Ct. 1727, 167 L.Ed.2d 705 (2007) [doc. nos. 384 and 386].

482 502 FEDERAL SUPPLEMENT, 2d SERIES

## *I. FACTUAL BACKGROUND*

The parties are familiar with the relevant facts. Previous opinions of this court contain detailed factual and technological summaries [see doc. nos. 114, 125, and 216]. Simply put, plaintiff owns a patent for auctioning municipal bonds using a web browser (the '099 Patent). Plaintiff accuses defendants of infringing this patent by operating a



competing Internet-based municipal bond auction system.

## II. PENDING POST-TRIAL MOTIONS

### *A. Defendants' Motion for a Hearing*

Defendants have asked the court to hold a hearing on the majority of the outstanding post-trial motions. Plaintiff opposes that request. The court does not require oral argument on any of these motions. The issues are aptly presented in the parties' extensive briefs. Oral argument would not assist the court in issuing its rulings. Therefore, we deny defendants' motion for a hearing [doc. no. 382].

### *B. Plaintiff's Motion for a Permanent Injunction*

Plaintiff seeks a permanent injunction enjoining defendants' continued infringement of the '099 Patent. Defendants claim that plaintiff has not established that it is entitled to such relief under the appropriate legal standards. We conclude that plaintiff has satisfied the requirements of the four-factor test, and is entitled to injunctive relief. Therefore, we grant plaintiffs motion for a permanent injunction [doc. no. 322].

Recently, the Supreme Court rejected the Court of Appeals for the Federal Circuit's "general rule" that permanent injunctive relief should be automatically granted in patent cases upon a finding of infringement. *eBay Inc. v. MercExchange, L.L.C.*,

\_\_\_ U.S. \_\_\_, 126 S.Ct. 1837, 164 L.Ed.2d 641 (2006). Instead, the Supreme Court reiterated that a district court must determine, in accordance with traditional equitable considerations, whether permanent injunctive relief is appropriate based on the particular facts and circumstances of the case before it. *Id.* at 1839-41. In doing so, a district court must not categorically grant, nor categorically deny, injunctive relief in patent cases. *Id.*

[1] Instead, the Supreme Court directed district courts to apply the well-established four-factor test to requests for injunctive relief in patent cases. *Id.* at 1839. Under that test, in order to be awarded injunctive relief, a plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. *Id.* Upon application of those factors to the facts and circumstances of this case, we conclude that permanent injunctive relief is warranted.

[2] Plaintiff has satisfied the first two requirements of the four part test. Plaintiff and defendants are direct competitors in a two-supplier market. If plaintiff cannot prevent its only competitor's continued infringement of its patent, the patent is of little value.

Moreover, the evidence at trial established, and the jury apparently found, that a sale to defendants is, by logical extension, a lost sale to plaintiff. Instead of buying plaintiff's patented system, customers are buying defendants' infringing system. Although this establishes monetary harm, in the form of lost profits, it harms plaintiff in other ways. The evidence at trial proved that plaintiff suffered permanent loss of market share as a result of defendants' infringing sales. This is a

483 502 FEDERAL SUPPLEMENT, 2d SERIES

harm that cannot be compensated for solely with monetary damages, making equitable relief appropriate.

Apart from these damages, defendants' infringement has caused harm to plaintiff's patent rights. Even though we may not categorically enter an injunction solely because plaintiff's patent has been infringed, we may still consider this to be a relevant factor in our analysis under the four-factor test. The jury's finding that defendants have, willfully infringed plaintiff's patent for six years supports our conclusion that plaintiff has suffered irreparable injury to its patent rights, for which there is no adequate remedy at law.

In addition, we find that plaintiff has suffered, and, will continue to suffer, harm to its reputation for innovation as a result of defendants' infringement. There is no dispute that plaintiff was the first to conduct municipal bond auctions over the

Internet. Plaintiff received media attention for doing so. Defendants' infringement has usurped that attention, and, in turn, done harm to plaintiff's reputation as the leading innovator in this field. Recognition as the industry innovator is a tangible benefit afforded by a patent. Defendants have taken that benefit away from plaintiff. Such a harm is not compensable in damages, and is irreparable, making equitable relief appropriate.

We note that defendants apparently have every intention of continuing to offer their infringing system in the absence of an injunction. Therefore, continued harm to plaintiff's patent rights, and continuous damages, both monetary and non-monetary, are guaranteed. Finally, we reject defendants' argument that licensing activity negates any possibility of irreparable harm under the facts of this case. Defendants' argument is both factually, and legally, flawed. Factually, there was no evidence at trial of significant, relevant licensing activity. Legally, licensing activity, even were it to have been proven at trial, does not negate a finding that the patentee has suffered irreparable harm or that legal remedies are inadequate.

Considering all of these facts and circumstances, we find that plaintiff has satisfied the first two requirements of the four-factor test. We next must consider factor three, the balance of hardships.

[3] We find that the balance of hardships favors plaintiff. In opposing plaintiff's request for

equitable relief, defendants claim that they would suffer hardship, in the form of disruption of service, and financial burdens, were an injunction to issue. However, defendants' own witnesses at trial contradicted these statements. Defendants contended at trial that there were several cost-effective, and easily implemented, alternatives to using the infringing New Parity system. One option was to return to the Old Parity system, which would cost virtually nothing, and cause little interruption in service.

Another option would cost around \$25,000 and take three weeks to develop. Defendants did not portray themselves at trial as a small, struggling company, for which \$25,000 was a significant investment. Although some disruption in service could occur during the three week development period, we note that defendants' customers could use many prior art methods of bid submission during that short time period. Therefore, defendants' claims that they would suffer hardship in the form of disruption of currently scheduled auctions and financial burdens were an injunction to issue ring hollow. Rather, we find that defendants would suffer little, if any, logistical and financial burden were an injunction to issue.

In comparison, without the injunction, plaintiff would suffer continued encroachment on its patent rights, loss of custom-

ers, price erosion, harm to reputation, and diminished market share. These burdens to plaintiff are real. The jury assigned significant value to some of them through its \$38.4 million verdict. Others are incapable of measurement in monetary terms. As such, the third factor, the balance of harms, weighs in favor of plaintiff.

[4] Finally, we find that the fourth factor favors entering a permanent injunction. In this case, the public interest will not be disserved by entry of a permanent injunction. Although defendants now allege that municipalities will be deprived of much needed funding were the New Parity system to be enjoined, again, this was not their position at trial. Rather, as discussed above, at trial, defendants presented numerous low-cost, easily executed replacements for the New Parity system. We find that, given this evidence, there is little risk of harm to the public interest in this case. Rather, we find that the public interest would be served by enjoining defendants' continued, willful infringement of the '099 Patent, and by upholding the benefits of duly issued United States patents.

Upon consideration of each of the four factors as applied to the facts and circumstances of this case, we find that the equities weigh in favor of granting plaintiff permanent injunctive relief. Therefore, we grant plaintiff's motion for a permanent injunction [doc. no. 322].

*C. Plaintiffs Motion to Tax Prejudgment Interest*



[5-8] Plaintiff has filed a motion seeking prejudgment interest in the amount of \$7,660,621.00. Defendants agree that an award of prejudgment interest is warranted, but claim that the amount requested by plaintiff is excessive. There is no dispute that we can, and should, award prejudgment interest in this case. *Allen Archery, Inc. v. Browning Mfg. Co.*, 898 F.2d 787, 791 (Fed.Cir.1990). Prejudgment interest is awarded to make a plaintiff whole. It represents the time value of the money lost during the period of infringement. *Skretvedt, v. E.I. Dupont De Nemours*, 372 F.3d 193, 207-08 (3d Cir.<sup>1</sup> 2004); see also *Bio-Rad Lab., Inc. v. Nicolet Instrument Corp.*, 807 F.2d 964, 969 (Fed.Cir.1986). The district court is charged with setting the appropriate rate at which such interest should be awarded, and determining the appropriate method of compounding. *Allen Archery*, 898 F.2d at 791.

Plaintiff contends that interest on the \$38.4 million lost profit damages award should be calculated at the prime rate, plus one percent, which is the actual rate at which plaintiff borrowed money during the period of infringement. Using this rate, interest in the amount of \$7,660,621.00 would be awarded.

Defendants ask that we base any award of prejudgment interest on either the T-Bill rate, or

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<sup>1</sup> The award of prejudgment interest is controlled by regional circuit law. *Transmatic, Inc. v. Gulton Industries, Inc.*, 180 F.3d 1343, 1347-48 (Fed.Cir.1999).



defendant Thomson's short-term borrowing rate. Using these rates, defendants propose prejudgment interest awards of either \$3,228,904.00 or \$3,754,175.00.

We find that plaintiff's proposed interest rate most accurately reflects a full compensatory award to plaintiff. The jury determined, that defendants' infringement caused plaintiff to lose \$38.4 million in profits. Plaintiff had to borrow money in order to account for that financial shortfall. Plaintiff borrowed money at the prime rate, plus one percent. Awarding plaintiff prejudgment interest at its borrowing rate compensates plaintiff for what it actually lost as a result of defendants' infringement. Had defendants not infringed, and

485 502 FEDERAL SUPPLEMENT, 2d SERIES

plaintiff not been forced to borrow such money, plaintiff would not have incurred such interest costs over the last six years.

Defendants' proposed interest rates would not adequately compensate plaintiff. That the United States government borrowed money at a lower rate, or that Thomson could borrow money at a lower rate over the short term, does not determine the loss or harm to plaintiff over the last six years.

Although this interest award is significant, it is not a form of punishment to defendants. Rather, it represents the risk that defendants chose to bear over the past six years by operating an auction

system accused of infringing an issued patent. Defendants could have designed around the '099 Patent, or paid for a license under the '099 Patent, and incurred the financial consequences of those choices at the time. Instead, defendants decided to continue their activities unabated. In making that choice, defendants assumed all financial risks related to that course of action.

Based on these considerations, we grant plaintiff's motion [doc. no. 327]. We award prejudgment interest on the \$38,482,008.00 compensatory damages award at the prime rate, plus one percent weighted average interest rate, compounded yearly, over the period of infringement. Thus, we award prejudgment interest in the amount of \$7,660,621.00.

#### *D. Plaintiff's Motion for Enhanced Damages*

[9, 10] Plaintiff has filed a motion for enhanced damages based on the jury's finding of willfulness. Plaintiff asks that we increase the damages award to \$115.4, three times the amount of the jury's verdict, pursuant to 35 U.S.C.A. § 284. Although a finding of willful infringement authorizes the award of enhanced damages, it does not mandate such an award. *Group One, Ltd. v. Hallmark Cards, Inc.*, 407 F.3d 1297, 1308 (Fed.Cir.2005). Instead, we must look to the totality of the circumstances of the case, considering both aggravating and mitigating facts, before reaching a determination of whether, and to what extent, we should exercise our discretion and award enhanced damages. *Knorr-Bremse*

*Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1342-43 (Fed.Cir.2004); *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed.Cir.1996).

[11] The Court of Appeals for the Federal Circuit has provided district courts with several factors to consider when determining whether damages should be enhanced. They include: (1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that the patent was invalid or not infringed; (3) the infringer's behavior as a party to the litigation; (4) defendant's size and financial condition; (5) closeness of the case; (6) duration of defendant's misconduct; (7) remedial action by the defendant; (8) defendant's motivation for harm; and (9) whether defendant attempted to conceal its misconduct. *Liquid Dynamics Corp. v. Vaughan Co., Inc.*, 449 F.3d 1209, 1225 (Fed.Cir.2006); *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed.Cir.1992) (superseded on other grounds as recognized in *Hoechst Celanese Corp. v. BP Chemicals Ltd.*, 78 F.3d 1575, 1578 (Fed.Cir.1996)). An evaluation of the above factors assists us in deciding whether to exercise our discretion and award enhanced damages. Upon consideration of each of these factors, we find it appropriate to enhance the jury's damages award in this case, although not to the extent requested by plaintiff.

*Deliberate Copying*--Plaintiff introduced evidence of numerous visits to its website, and statistical similarities between New Parity and the claims of the '099 Patent in order to prove copying at trial. Although both pieces of evidence could have innocuous explanations, each could also reveal sinister motives. The jury's finding of willful infringement could indicate that the jury believed that plaintiff had proven deliberate copying. On balance, this factor weighs in favor of enhancing damages.

*Good Faith Belief*--Defendants reiterate that they had a good faith belief that they did not infringe the '099 Patent because they obtained an opinion letter from counsel. There is no question that an opinion letter is typically used to shield an accused infringer from a verdict of willful infringement. There is no dispute that defendants had an opinion letter in this case. There is also no dispute that the jury entered a verdict of willful infringement despite the letter. Therefore, the jury found that the opinion letter was deficient in some way. We will not contradict the jury's conclusion. This factor weighs in favor of enhancing damages.

*Litigation Behavior*--Plaintiff correctly notes that defendants violated this court's instructions during, and generally abused, the claim construction process. Plaintiff also contends that defendants acted improperly during trial. While we agree with the first observation, we do not agree with the second. We do not consider defendants' trial tactics to have crossed the line into egregious conduct. Counsel had

a duty to zealously represent his clients. Patent trials are expensive, lengthy, and high risk endeavors. We cannot fault defendants, and their counsel, for their aggressive conduct at trial. We do, however, fault defendants for abusing the claim construction process, and exacerbating that burden, both on plaintiff, and on the court. Therefore, this factor, weighs somewhat in favor of enhancing damages.

*Size and Financial Condition*--Although defendants now attempt to portray themselves as small companies, with insignificant earnings from the infringing system, the fact remains that Thomson, a named defendant, and one-time part owner of defendant i-Deal, is a billion dollar company. Plaintiff is dwarfed in comparison. i-Deal is not an insignificant company. These facts, combined with defendants' disingenuous post-trial claims that they are small, financially strapped companies, weigh in favor of enhancing damages.

*Closeness of the Case*--This was not a particularly close case on the issue of infringement or invalidity. Although the case was hard fought, there was little question regarding infringement after the court issued its claim construction. The question regarding obviousness was not much closer given the differences between what was claimed in the '099 Patent, and what the Old Parity system did. Defendants cannot dispute that the Patent Examiner compared the Old Parity system to the claimed invention and identified significant differences

between the two. This factor weighs in favor of enhancing damages.

*Duration of Infringement*--There is no dispute regarding this factor. Defendants started infringing the '099 Patent the day that it was issued more than six years ago, and continue to do so today. Defendants continue to infringe despite their admissions at trial that a design around was a quick and cheap solution. Defendants apparently intend to continue infringing in the absence of an injunction. This factor weighs in favor of enhancing damages.

*Remedial Action*--There is no dispute regarding this factor either. Defendants have taken no remedial action. While it may be true that defendants have issues

#### 487 502 FEDERAL SUPPLEMENT, 2d SERIES

that they intend, to pursue on appeal, we are not directed to evaluate defendants' appellate position. Instead, we are told to determine whether any remedial actions have been taken. Defendants have taken none. Therefore, this factor weighs in favor of enhancing damages.

*Motivation to Harm*--Plaintiff presented evidence at trial that defendants priced their product at zero in order to harm plaintiff's business. Of course, defendants dispute that this was their motivation. In our view, plaintiff's internal documents discussing this exact motivation are



telling. Therefore, this factor weighs in favor of enhancing damages.

*Concealing Misconduct*--Plaintiff alleges that defendants attempted to conceal their identities when visiting plaintiff's website, and that, therefore, this factor weighs in favor of enhancement. We disagree with plaintiff. The domain names being used to access plaintiff's website contained Thomson Financial Network's initials. There was no attempt to access the website from another domain name, or to change the initials. We find that defendants made no attempt to hide their conduct. This factor weighs against enhancing damages.

We must also consider that defendants presented no mitigating circumstances, other than again proclaiming that they do not infringe, that they are protected by their opinion letter, and that the '099 Patent is invalid. These arguments have now all been rejected by the jury, and defendants' continued insistence on advancing them does not rise to the level of a mitigating circumstance.

In light of the jury's finding of willfulness, our own examination of the *Read* factors, and the absence of any relevant mitigating circumstances, we conclude that it is appropriate to exercise our discretion and award enhanced damages. Thus, we grant plaintiff's motion for enhanced damages [doc. no. 332].

[12-14] We must next determine the appropriate factor by which to multiply the jury's



\$38.4 million verdict. In doing so, we may consider the size of the damages award. *Riles v. Shell Exploration and Production Co.*, 298 F.3d 1302, 1314 (Fed.Cir.2002). Here, the jury awarded the maximum amount of damages requested by plaintiff. The award is significant, in its own right. However, we do not consider the compensatory damages award to evidence the jury's desire to punish defendants. Defendants insist that the \$38.4 million verdict is itself punitive because they made only \$3.5 million in revenues from New Parity. But, as defendants well know, lost profit damages are not based on the income earned by the infringer. Instead, such damages are representative of the profits lost by the patent holder. The jury accepted plaintiff's theories as to what it lost due to defendants' infringement.

Although not punitive, the jury verdict is undeniably substantial. However, with eight out of the nine *Read* factors weighing in favor of enhancement, a jury verdict of willful infringement, and no mitigating circumstances, a significant enhancement is still warranted. Therefore, we will double the jury's damages award. Thus, we increase the jury's damages award from \$38,482,088.00 to \$76,964,016.00.

*E. Defendants' Motion for Judgment as a Matter of Law or for a New Trial*

Defendants have renewed the motion for judgment as a matter of law that they made at trial. Fed.R.Civ.P. 50(b). They have also, in the alternative, moved for a new trial under Federal

Rule of Civil Procedure 59. Defendants challenge four categories of the jury's verdict, and/or this court's rulings: (1) damages; (2) obvious-

488 502 FEDERAL SUPPLEMENT, 2d SERIES

ness; (3) joint infringement; and (4) willfulness. We see no error in our prior rulings or instructions, or in the jury's verdict, and therefore, deny the motion [doc. no. 344].

*1. Applicable Legal Standards*

*(a) Motion for Judgment as a Matter of Law*

[15, 16] Whenever a motion for a judgment as a matter of law under Rule 50(a)(1) is not granted at trial, the moving party may renew the motion after judgment has been entered. Fed.R.Civ.P. 50(b). A motion for judgment as a matter of law will be granted only if, "viewing the evidence in the light most favorable to the nonmovant and giving it the advantage of every fair and reasonable inference, there is insufficient evidence from which a jury reasonably could" reach its verdict. *Lightning Lube, Inc. v. Wilco Corp.*, 4 F.3d 1153, 1166 (3d Cir.1993). In determining whether the evidence is sufficient to sustain the jury's verdict, the court cannot reweigh the evidence, determine the credibility of witnesses, or substitute its version of the facts for the jury's version. *Reeves v. Sanderson Plumbing Products, Inc.*, 530 U.S. 133, 150, 120 S.Ct. 2097, 147 L.Ed.2d 105 (2000); *Fineman v. Armstrong World Indus., Inc.*, 980 F.2d 171, 190 (3d Cir.1992).

(b) *Motion for a New Trial*

[17-19] A moving party may be granted a new trial even when the court determines that entry of judgment as a matter of law in that party's favor is not appropriate. *Roebuck v. Drexel Univ.*, 852 F.2d 715, 735-36 (3d. Cir.1988). However, a new trial should be granted only when the verdict is contrary to the great weight of the evidence, or when a miscarriage of justice would result if the verdict were to stand. *Sheridan v. E.I. DuPont de Nemours and Co.*, 100 F.3d 1061, 1076 (3d Cir.1996). A new trial because the verdict is against the great weight of the evidence should be granted "only when the record shows that the jury's verdict resulted in a miscarriage of justice or where the verdict, on the record, cries out to be overturned or shocks the conscience." *Williamson v. Consolidated Rail Corp.*, 926 F.2d 1344, 1353 (3d Cir.1991).

2. *Discussion*

Defendants object to four categories of the court's rulings and the jury's verdict. We will address each category separately and determine, for each, whether either judgment as a matter of law, or a new trial is warranted.

(a) *Damages*

[20] Defendants claim that the jury's damages award was not based on sufficient evidence. Defendants contend that the jury lacked a

reasonable basis on which to award any damages based on Parity-Optional auctions. Defendants further argue that there is not a legally sufficient evidentiary basis for the jury to have awarded lost profit damages because: (1) there were commercially acceptable non-infringing alternatives in the marketplace; (2) there was a large price disparity between the parties' products; and (3) the evidence is insufficient to support a price erosion claim. As an alternative to these arguments, defendants ask for a new trial on the issue of damages.

As an initial matter, defendants overstate the value of their Parity-Optional evidence, which is the basis of their first objection to the damages award. Defendants' witness testified at trial that she had performed a calculation the prior evening proving that only 11% of defendants' auctions were Parity-Exclusive (*i.e.*, permitted only electronic bid submission). Other witnesses, including plaintiff's expert, acknowledged the obvious fact that

#### 489 502 FEDERAL SUPPLEMENT, 2d SERIES

systems in which bids were submitted in person, or by facsimile, were not "electronic auction systems," as is required by the claims of the '099 Patent. From this, defendants argue that all Parity-Optional auctions were non-infringing.

However, defendants' syllogism contains a fatal flaw. Defendants' witness also testified that she had no way of knowing what method, or methods, of bid submission were actually used in Parity-Optional

auctions. Instead, defendants asked the jury to assume that all Parity-Optional auctions used non-electronic means of bid submission, without providing the jury with evidence of that fact. This is far from dispositive evidence proving that all Parity-Optional auctions were non-infringing. As such, the jury was free to disregard, or discredit, the testimony on that basis. The jury also was permitted to consider the fact that this evidence had been created during the trial and was, on its face, incomplete. Moreover, it was the jury's job to assess the demeanor and credibility of defendants' witness in deciding whether to accept or reject her testimony.

[21] Apart from accounting for these defects in defendants' evidence, the jury's verdict also is in accordance with "the rule that 'an accused product that sometimes, but not always, embodies a claimed method nevertheless infringes.'" *Cross Medical Products, Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1311 (Fed.Cir.2005) (citing *Hilgraeve Corp. v. Symantec Corp.*, 265 F.3d 1336 (Fed.Cir.2001) and *Bell Communications Research, Inc. v. Vitlink Communications Corp.*, 55 F.3d 615 (Fed.Cir.1995)). Therefore, we find no error in the fact that the jury's damages award accounted for so-called Parity-Optional auctions.

[22] We otherwise uphold the jury's lost profit damages award. The verdict was supported by sufficient evidence. Although defendants allege that there were acceptable non-infringing alternatives in the marketplace, the jury apparently disagreed. Defendants contended that paper-based systems

were a substitute for electronic systems. However, there was evidence demonstrating that non-electronic bid systems did not provide the benefits of electronic bid systems, and were not acceptable substitutes. See *Kalman v. Berlyn Corp.*, 914 F.2d 1473, 1484-85 (Fed.Cir.1990). This was a factual dispute that the jury was called on to resolve. *Minnesota Mining and Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1577-78 (Fed.Cir.1992). The jury was within reason to find that Old Parity, and other non-electronic bid submission systems, were not alternatives to plaintiff's electronic system, with its added features and benefits.

[23] Moreover, plaintiff presented sufficient economic evidence to support all aspects of its lost profits damages theory, contrary to defendants' claims. In his market analysis, plaintiff's expert recognized that some portion of defendants' customers would not move their business to plaintiff. Plaintiff offered an explanation to the jury as to why there was such a drastic price disparity between plaintiff's system and defendants' system. Plaintiff presented evidence of a two supplier market. Of course, defendants presented counter-evidence to the jury in support of their version of these facts. That the jury was convinced by plaintiff's evidence, rather than defendants', is not error.

Under those circumstances, we cannot say that the jury's award of lost profit damages was not supported by sufficient evidence, was against the great weight of the evidence, or resulted in a



miscarriage of justice. The damages award was admittedly large. However, there was sufficient evidence supporting it. Therefore, we

490 502 FEDERAL SUPPLEMENT, 2d SERIES

deny defendants' motion for judgment as a matter of law, and for a new trial, on this ground. There is no basis on which to enter a remittitur of damages.

(b) *Obviousness*<sup>2</sup>

[24] Defendants contend that they are entitled to judgment as a matter of law, or a new trial, on their defense and counterclaim of patent invalidity. According to defendants, all of the asserted claims of the '099 Patent are invalid because they are obvious in light of the Old Parity electronic bid submission system. Defendants argue that Old Parity performed all of the functions of the asserted claims and that one of ordinary skill in the art could combine Old Parity with a web browser to arrive at the patented invention.

[25, 26] Obviousness must be proven by clear and convincing evidence. *Structural Rubber Products Co. v. Park Rubber Co.*, 749 F.2d 707, 714 (Fed.Cir.1984). The ultimate judgment of obviousness is a legal question, although based on

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<sup>2</sup> We have considered the supplemental memoranda of law submitted by each party in ruling on this issue. Therefore, plaintiffs and defendants' motions for leave to file supplemental memoranda of law [doc. nos. 384 and 386] are granted.



factual determinations.<sup>3</sup> *Graham v. John Deere Co.*, 383 U.S. 1, 17, 86 S.Ct. 684, 15 L.Ed.2d 545 (1966). In this case, each party submitted proposed jury instructions on the issue of obviousness, which were discussed at length at the charge conferences. In addition, the parties submitted nearly identical proposed jury verdict forms. Each form asked the jury to check off, claim-by-claim, whether the asserted claim was obvious, or not obvious. The court adopted the proposed format. We submitted the ultimate question of obviousness to the jury, as is customary.

The jury in this case found that each of the asserted claims of the '099 Patent was not obvious. We have reviewed the evidence, and considered the recent Supreme Court case addressing the appropriate standards to apply to an obviousness determination, and find no error, or miscarriage of justice, in the jury's verdict.

[27, 28] A ruling on an obviousness defense or counterclaim is made after considering: (1) the scope and content of the prior art; (2) the differences between the prior art and the claims at issue; and (3) the level of ordinary skill in the pertinent art. *Graham*, 383 U.S. at 17-18, 86 S.Ct. 684. Evidence of secondary considerations may be used to shed light on the question of obviousness. *Id.* Until recently,

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<sup>3</sup> Where the content of the prior art, the scope of the patent claim, and the level of ordinary skill in the art are not in dispute, the obviousness question can be decided as a matter of law. *KSR Int'l Co. v. Teleflex Inc.*, \_\_\_ U.S. \_\_\_, 127 S.Ct. 1727, 1745-46, 167 L.Ed.2d 705 (2007).

when an invention was allegedly made obvious by the combination of two, or more, pieces of prior art, a court, or jury, was required to apply the "teaching, suggestion, or motivation" test. Under that test, a patent claim could be found obvious only if there was some motivation or suggestion to combine the pieces of prior art in the prior art, the nature of the problem, or the knowledge of a person having ordinary skill in the art. *KSR*, 127 S.Ct. at 1734.

However, in *KSR* the Supreme Court unanimously found that the teaching, suggestion, or motivation test was "incompatible with our precedents" when applied as a rigid and mandatory formula. *Id.* at 1741. However, recognizing that most modern inventions "rely upon building blocks long since uncovered," the Court still found it "important to identify a reason that would have prompted a person of ordinary skill in the relevant art to combine the elements in the way the claimed new invention

491 502 FEDERAL SUPPLEMENT, 2d SERIES

does." *Id.* Generally in determining obviousness, the Court directed us to ask whether the invention was a result of innovation, or of ordinary skill and common sense, because "[g]ranting patent protection to advances that would occur in the ordinary course without real innovation retards progress ..." *Id.* at 1741, 1746.

With those directives in mind, we consider the jury's verdict of non-obviousness in this case. There

is no dispute that the level of ordinary skill in the art was a degree in computer science, plus a year of work experience in the financial industry. There is also no dispute as to the content of the prior art or of the scope of the patent's claims. Defendants rely on Old Parity<sup>4</sup>, combined with prior patents that taught, generally, the use of web browsers for auctions, and industry speeches and internal documents referring to the concept of auctioning municipal bonds over the Internet, to support their argument that the asserted claims of the '099 Patent are obvious. According to defendants, Old Parity performed all of the operations found in the asserted claims, except use of a web browser. Therefore, defendants contend that the '099 Patent accomplished nothing more than moving Old Parity onto the Internet. That is not what the record reflects.

Plaintiff presented ample evidence to defeat defendants' attempts to show by clear and convincing evidence that there were no differences between Old Parity and the claims of the '099 Patent. In fact, as this court had already recognized, the Patent Office determined that Old Parity, at least, did not perform the step of automatically computing at least one interest cost value. The jury was also presented with evidence that Old Parity did not confirm bid parameters, as was claimed in the '099 Patent. Defendants did not contend at trial that those claim elements appeared in any other piece of prior art.

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<sup>4</sup> We note that the Examiner was aware of, and explicitly gave consideration to, Old Parity as a key piece of prior art.

Nor did they argue that the elements were otherwise obvious. Without such evidence, the jury could only reasonably have found that Old Parity did not contain all of the elements found in the asserted claims of the '099 Patent. As such, the obviousness analysis ends there. The jury need not have applied any version, whether correct or incorrect under *KSR*, of the teaching, suggestion, or motivation test. Therefore, there is no error in the jury's verdict, nor need for a new trial on the issue of obviousness.

We further note that plaintiff presented sufficient evidence of secondary considerations to shed light on the circumstances surrounding the origin of the patented subject matter. Plaintiff presented evidence of skepticism, legally appropriate praise, copying, and commercial success. This evidence supports the jury's conclusion that the claims of the '099 Patent were not obvious.

Given all of these considerations, we see no insufficiency, error, or injustice, in the jury's finding that defendants failed to prove by clear and convincing evidence that the claims of '099 Patent were obvious. We will neither enter judgment as a matter of law, nor grant a new trial, on the issue of obviousness.

*(c) Joint Infringement*

[29] Defendants claim that judgment as a matter of law, or a new trial, is warranted on the issue of infringement because the jury instructions regarding joint infringement were erroneous.

Defendants argue that the instructions given allowed the jury to find infringement on an insufficient legal basis.

492 502 FEDERAL SUPPLEMENT, 2d SERIES

We find no error on the instructions given to the jury on the issue of infringement. As an initial matter, we note that the issue of infringement by related parties was strongly contested throughout this case, including at trial. The parties were given ample opportunity to present their positions at the charge conference. The court ruled on the issue at that time.

The jury was instructed in accordance with controlling precedent from the Court of Appeals for the Federal Circuit. *On Demand Machine Corp. v. Ingram Indus., Inc.*, 442 F.3d 1331, 1344-45 (Fed.Cir.2006). That precedent does not require that "direct control" be proven before infringement by related parties can be found, as defendants allege. There was sufficient evidence for the jury to have found the required connection between defendants, the bidders to whom they charge a fee for their services, and the issuers for whom they facilitate auctions, under the appropriate legal standards as set forth in the instructions. There is no error in the instruction, or verdict, regarding joint infringement.<sup>5</sup>

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<sup>5</sup> We note that plaintiff voluntarily dropped its claims of indirect infringement at trial. Therefore, the court did not instruct the jury on those theories. Defendants' assertion that the court improperly included instructions regarding inducing infringement in its jury instructions is unfounded.

Neither judgment as a matter of law, nor a new trial, is warranted on this basis.

*(d) Willfulness*

[39] Finally, defendants attack the jury's finding that they willfully infringed the '099 Patent. Defendants allege that the jury lacked any reasonable basis on which to find that defendants did not rely in good faith on the advice of counsel. Further, defendants contend that the evidence of copying presented by plaintiff at trial was insufficient to sustain the jury's willfulness finding.

After reviewing the evidence, however, the court concludes that the evidence, and reasonable inferences drawn therefrom, support the jury's finding. The fact that defendants presented an opinion letter to the jury is not determinative of the willfulness question, as defendants contend. Plaintiff presented evidence that drew the value of the opinion into question. Defendants presented evidence that the opinion letter was top notch, and relied upon in good faith. The jury was called upon to decide whether the letter provided defendants with a reasonable, good faith belief that the patent was invalid or not infringed. That the jury agreed with plaintiff, and not defendants, is not error. The court instructed the jury on how it was to make its willfulness determination under the law. In addition, we informed the jury that counsel's arguments were not evidence. The jury performed its function and made a determination as to whether the opinion letter protected defendants in this case. There is no



legal error inherent in the fact that the jury sided with plaintiff.

Likewise, the jury was free to interpret the evidence of copying as it saw fit. Just as defendants could present evidence to the jury showing that they prepared New Parity based only on Old Parity, plaintiff could present evidence to the jury showing that New Parity was copied from its product. It was up to the jury to decide whom to believe.

We cannot say that there was insufficient evidence to support the jury's willfulness verdict, or that it was contrary to the great weight of the evidence or resulted in a miscarriage of justice. Therefore, we deny defendants' motion for judgment as a matter of law, and for a new trial, on this basis as well.

493 502 FEDERAL SUPPLEMENT, 2d SERIES

### *3. Summary*

Defendants have objected to this court's rulings, and the jury's verdict, on the issues of damages, obviousness, joint infringement, and willfulness. The jury's verdict on each issue was supported by sufficient evidence and does not result in a miscarriage of justice. Therefore, there is no basis for the court to enter judgment as a matter of law, or to order a new trial. Further, we have found no error in any of the rulings made or instructions given by this court.



### III. CONCLUSION

The court has resolved all pending post-trial motions. We will enter a permanent injunction against defendants' continued infringement of the '099 Patent. We will modify the damages award to account for an enhancement of damages and prejudgment interest. Neither judgment as a matter of law, nor a new trial, is warranted.

An appropriate order follows.

### ORDER

AND NOW, this 30th day of July, 2007, IT IS HEREBY ORDERED as follows:

Defendants' motion for a hearing is DENIED [doc. no. 382];

Plaintiff's motion for leave to file a supplemental memorandum of law is GRANTED [doc. no. 384];

Defendants' motion for leave to file a supplemental memorandum of law is GRANTED [doc. no. 386];

Plaintiff's motion for permanent injunction is GRANTED [doc. no. 322]. The attached Order for Permanent Injunction is hereby entered in this case;

Plaintiff's motion to tax prejudgment interest is GRANTED [doc. no. 327]. Plaintiff is awarded \$7,660,621.00 in prejudgment interest;

Plaintiff's motion for enhanced damages is GRANTED [doc. no. 332]. We enter judgment in the amount of \$76,964,016.00;

Defendants' motion for judgment as a matter of law, or for a new trial, is DENIED [doc. no. 344].

**Appendix H - Memorandum and Order of the  
United States District Court for the Western District  
of Pennsylvania Denying Respondents'  
Motion for a Stay of Injunction  
Date Docketed August 21, 2007**

**IN THE UNITED STATES DISTRICT COURT FOR  
THE WESTERN DISTRICT OF PENNSYLVANIA**

**MUNIAUCTION, INC.,  
Plaintiff**

**v.**

**Civil Action 01-1003**

**THOMSON CORP., and  
I-DEAL, LLC,  
Defendants.**

**MEMORANDUM and ORDER**

**Gary L. Lancaster  
District Judge**

**August 17, 2007**

This is a patent infringement case. On October 5, 2006, a jury found that defendants willfully infringed plaintiff's patent. On July 31, 2007, the court entered a permanent injunction against defendants' continued willful infringement. Defendants have moved to stay enforcement of the permanent injunction pending appeal to the United States Court of Appeals for the Federal Circuit [doc. no. 391]. For the reasons set forth below, the motion will be denied.

We have the authority to stay the permanent injunction pursuant to Federal Rule of Civil Procedure 62 (c).<sup>1</sup> In deciding whether to grant such relief, we are to consider four factors: (1) whether defendants have made a strong showing of a likelihood of success on the merits of the appeal; (2) whether defendants will be irreparably harmed absent a stay; (3) whether issuance of the stay will substantially injure plaintiff; and (4) how the public interest will be affected. Hilton v. Braunskill, 481 U.S. 770, 776-77 (1987); Republic of Philippines v. Westinghouse Elec. Corp., 949 F.2d 653, 658 (3d Cir. 1991). We find that each of these factors weighs in favor of denying defendants' motion to stay.

We conclude, as we did just weeks ago in our July 31<sup>st</sup> opinion, that defendants have not made a particularly strong showing of a likelihood of success on the merits of their appeal. In the instant motion, defendants argue that they have a substantial chance of prevailing at the appellate level on two issues: (1) infringement by related parties; and (2) obviousness. Defendants opposed plaintiff's motion for a permanent injunction on these same grounds. We discussed the strength of defendants' position on these two issues at that time, the circumstances of

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<sup>1</sup> Defendants, as appellants, have also filed a motion with the court of appeals asking that court to stay our injunction. Fed. R. App. P. 8(a). The court of appeals has stayed our order pending resolution of the Rule 8 motion. That stay is temporary, and is not based on a consideration of the merits. Muniauction v. Thompson Corp., No. 2007-1485, Order at 2 (Fed. Cir. Aug. 2, 2007).

which have not changed. Defendants' position becomes no stronger through repetition. We reiterate our prior finding that defendants do not have a significant likelihood of appellate success on either infringement or validity. Therefore, this factor weighs in favor of denying the motion to stay.

Likewise, we also considered the potential harms to defendants and to plaintiff in deciding whether to grant the permanent injunction in the first instance. In our prior opinion, we rejected defendants' assertion that they would have to cancel auctions if an injunction were to issue. Instead, based on defendants' own trial testimony, we found that various prior art methods of bid submission could be used while defendants developed and implemented a noninfringing system. Defendants have provided no argument or new evidence to rebut these previous findings. Again, repetition does not make defendants' position any stronger. The second factor weighs in favor of denying the motion for a stay.

The third factor also weighs in favor of denying the motion. According to defendants, the stay will not harm plaintiff because plaintiff did not seek injunctive relief until five years after it filed this case. Defendants do not advance any other argument regarding this factor. Defendants do not acknowledge the numerous harms to plaintiff that we identified in our July 31, 2007 opinion. Our discussion of these harms in the context of entering the permanent injunction is equally applicable to our consideration of whether staying the injunction

would harm plaintiff. Upon incorporation of that discussion here, we find that factor three also weighs in favor of denying the motion to stay.

Finally, for the same reasons that the public interest favored granting the motion for permanent injunctive relief, it also favors denying the motion to stay. Defendants rehash the same argument that they previously raised regarding the public interest. We rejected defendants' contention that auctions would have to be cancelled, and public projects abandoned, if the injunction were to issue in ruling on the motion for a permanent injunction. Again, as conceded by defendants themselves at trial, prior art methods and redesigned auction systems could replace New Parity almost immediately. This final factor weighs in favor of denying the motion for stay.

All four factors weigh in favor of denying the motion to stay. Thus, the motion is denied. An appropriate order follows.

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IN THE UNITED STATES DISTRICT COURT FOR  
THE WESTERN DISTRICT OF PENNSYLVANIA

MUNIAUCTION, INC.,  
Plaintiff

v.

Civil Action 01-1003

THOMSON CORP., and  
I-DEAL, LLC,  
Defendants.

ORDER

AND NOW, this 17th day of August, 2007, IT  
IS HEREBY ORDERED that defendants' motion to  
stay [doc. no. 391] is DENIED.

BY THE COURT  
/s/ Gary L. Lancaster

cc: All Counsel of Record



**Appendix I - Judgment of the United States District  
Court for the Western District of Pennsylvania  
Date Docketed October 9, 2006**

**UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF PENNSYLVANIA**

**MUNIAUCTION, INC., t/d/b/a  
Grant Street Group, Inc.**

**JUDGEMENT IN A CIVIL CASE**

**v. Case Number: C.A. 01-1003**

**THOMSON CORPORATION, t/d/b/a  
Thomson Financial, t/d/b/a Thomson  
Financial Municipals Group and  
I-DEAL, LLC,**

**x Jury Verdict.** This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.

**— Decision by Court.** This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.

**IT IS ORDERED AND ADJUDGED** that judgment be, and hereby is, entered in favor of plaintiff, Muniauction, Inc., trading and doing business as Grant Street Group, Inc., and against defendants, Thomson Corporation, trading and doing business as Thomson Financial, trading and doing

business as Thomson Financial Municipals Group and I-Deal, LLC, in the amount of \$38,482,008.00.

JUDGMENT SO ORDERED AND TO BE  
ENTERED IN ACCORDANCE TO THE  
VERDICT RENDERED BY THE JURY.

/s/ Gary L. Lancaster

GARY L. LANCASTER, U.S. DISTRICT JUDGE

10/6/06  
Date

Robert V. Barth, Jr., Clerk of Court  
Clerk

/s/ Michael Palus  
(By) Deputy Clerk

**Appendix J - Catherine Larkin & Susan Decker,**  
**"Teva Grabs Billions Gambling on Copies of Brand**  
**Drugs," [www.boomberg.com](http://www.boomberg.com),**  
**Dated December 1, 2008**

**Teva Grabs Billions Gambling on Copies of Brand**  
**Drugs (Update2)**

By Catherine Larkin and Susan Decker

Dec. 1 (Bloomberg) -- Teva Pharmaceutical Industries Ltd. turned itself into the world's biggest maker of generic medicines through a high-risk strategy of flouting drug patents. Its next target may be Eli Lilly & Co.'s Evista, an osteoporosis treatment with more than \$700 million a year in U.S. sales.

Teva, Israel's biggest company by market capital, risks paying billions of dollars in legal damages by taking a calculated gamble: It begins selling copies while patents on a drug are still being disputed in court. Teva bets it will win the court case, allowing it to avoid triple damages for violating valid patents on brand-name drugs.

The company has pulled off the maneuver 13 times since 2004, helping double annual revenue to \$9.41 billion. The strategy gets cheaper, copycat drugs to patients quicker as governments and employers are demanding relief from record health-care costs. No other generic-drug maker has staked so much of its business on so-called at-risk launches.

"Teva alone has the resources to do these at-risk launches," said Joseph O'Malley, a patent lawyer at Paul, Hastings, Janofsky & Walker in New York who represents makers of brand-name drugs, in a telephone interview. "If they gamble and are incorrect, the lost profits could be catastrophic to smaller companies that don't have Teva's resources."

The company, which often targets patents it contends are obvious variations on existing ideas, has yet to pay damages. Instead, Teva scooped up sales.

American depositary receipts of Petah Tikva-based Teva, each representing one ordinary share, fell \$1.80, or 4.2 percent, to \$41.35 in Nasdaq Stock Market composite trading at 4 p.m. New York time, amid a general market decline. The ADRs have lost 11 percent so far this year.

#### Pending Acquisition

Teva's pending \$7.3 billion acquisition of Barr Pharmaceuticals Inc., a Montvale, New Jersey-based maker of generics and birth-control pills, provides the opportunity to copy Lilly's bone-drug Evista. The deal is due to close by the end of the year.

Barr holds approval from the Food and Drug Administration to sell the first generic version of the medicine in the U.S. Lilly says its patents on Evista extend until 2017, while Barr claims the patents are invalid because they don't break new ground.

Once Teva takes over Barr, it may not wait for the outcome in court. A copy of Evista may go on sale as soon as March, bringing in \$90 million to \$300 million for Teva in 2009, said Corey Davis, an analyst with Natixis Bleichroeder in New York, in an e-mail.

### 30-Month Delay

U.S. law allows the sale of generic drugs if they don't infringe patents held by brand-name drugmakers or if the patents are invalid. The maker of the original drug can sue, claiming infringement, when a generic-drug company applies to the FDA to market copies. That triggers a 30-month delay in approval of the generic medicine while the parties fight in court.

After that, the FDA grants approval of the generic version even if the patent dispute drags on. In such cases, Teva sometimes floods the market with generics on the expectation that it will ultimately prevail in court.

AstraZeneca Plc's asthma drug Pulmicort was Teva's most recent target. The generic-drug maker started selling copies on Nov. 18, and London-based AstraZeneca Plc won a restraining order halting sales. Less than a week later, AstraZeneca agreed to let Teva keep selling supplies already on the market and resume new shipments on Dec. 15, 2009, in exchange for undisclosed payments.

### Allergy Drugs

Sanofi-Aventis SA also reached a legal settlement last month with Teva and Barr that gave Barr rights to sell generic versions of two allergy drugs, Allegra-D in 2009 and Nasacort by 2013. The threat that Teva wouldn't wait for a court decision may have prompted Paris-based Sanofi to settle, said Ronny Gal, an analyst with Sanford C. Bernstein & Co. in New York.

"I am sure the possibility Teva could launch at-risk on both Allegra-D and Nasacort played a part in Sanofi's calculations," Gal said in an e-mail.

Teva started in 1901 by distributing imported medicines on camels and donkeys. Years later, U.S. and European drugmakers sold licenses to the company to make local versions of their products as a way around Arab embargoes. In the 1980s Teva expanded into the U.S. through acquisitions and a 1984 law that grants six months' exclusivity to the first generic-drug maker challenging U.S. patents.

The company's chief executive officer, Shlomo Yanai, was a major general in the Israel Defense Forces before coming to Teva last year. He has vowed to double revenue again by 2012.

#### 'Astute Managers'

"I don't think they're necessarily such brazen risk takers as much as they are astute managers that are able to make risk-reward decisions and follow through," Gal said in a telephone interview.

Even before the July agreement to buy Barr, Teva had about 19 percent of the \$28.2 billion U.S. market for generic drugs, according to IMS Health Inc., a research company in Norwalk, Connecticut. That will jump to 23 percent with the addition of Barr. The next-biggest, the Sandoz unit of the Swiss drugmaker Novartis AG, has 11 percent.

Bill Marth, head of Teva's North American unit, confirmed in an interview that Teva is considering other drugs for its at-risk strategy. He declined to say which ones.

"At-risk launches have been a strategy of Teva's for quite some time, and we feel that it's something we need to do," Marth said. "It's our right and it's our obligation to do that to get affordable medicines into the system."

### \$900 Million Penalty

Teva's gamble on early copies of Evista would cost the company as much as \$900 million if the company places a bad bet, according to Davis, the Natixis analyst.

Assuming a gross profit margin of about 88 percent, a 35 percent tax rate and gradual erosion of market share over the year, generic competition for Evista may reduce Lilly's net income by more than \$300 million in the first year, Davis estimated. That figure may be tripled under the law if a judge later finds the company willfully infringed valid patents.



"The reason that generic companies are more willing to do this is that they don't believe they'd ever have to pay that much," Davis said in a telephone interview. "If Teva really believed it was that much at risk, would the board let them do it? No."

Lilly said it would fight any patent infringement.

"We firmly believe in the validity of our patents for Evista," and any company selling a copy before they expire may be "required to pay compensatory damages to Lilly," said Teresa Shewman, a spokeswoman for the Indianapolis-based company, in an e-mail.

### Antitrust Probe

European Union regulators raided Teva's British offices and those of other drugmakers last week as part of an antitrust investigation over whether brand-name companies misuse patent rules and lawsuit settlements with generic-drug makers to keep copies off the market. Teva is cooperating with the probe.

Generic drugs account for 65 percent of prescriptions dispensed in the U.S. market. Teva competes with dozens of companies, with an increasing number seeking to overturn patents by challenging them in court before they expire.

The maker of the first generic can charge almost full price during the six months of exclusive sales. After that, prices may drop to pennies a pill as competitors join in.

Teva has sometimes teamed up with companies holding the rights to the first generic of a top-selling product to support an at-risk launch. Teva joined with Alpharma Inc. to copy Neurontin, an epilepsy drug from New York-based Pfizer Inc., in 2004, and with Barr to copy the original formulation of Allegra in 2005. Allegra-D is an extended-release version with a decongestant added.

The only way Teva will back off is if it loses a big case, said O'Malley, the patent lawyer.

"If there's a huge damage award in any of these cases where they've launched at-risk, we can imagine Teva and others might rethink this strategy," O'Malley said.

The Evista case is *Eli Lilly & Co. v. Teva Pharmaceuticals USA Inc.*, 06cv1017, U.S. District Court for the Southern District of Indiana (Indianapolis).

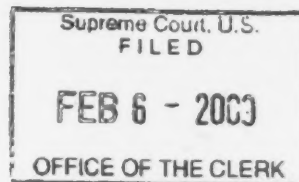
To contact the reporters on this story: Catherine Larkin in Washington at [clarkin4@bloomberg.net](mailto:clarkin4@bloomberg.net); Susan Decker in Washington at [sdecker1@bloomberg.net](mailto:sdecker1@bloomberg.net).

*Last Updated: December 1, 2008 16:27 EST*

119

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No. 08-847



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**IN THE  
Supreme Court of the United States**

**MUNIAUCTION, INC.,  
D/B/A GRANT STREET GROUP,** *Petitioner,*

**v.**

**THOMSON CORPORATION, D/B/A  
THOMSON FINANCIAL LLC AND/OR  
THOMSON FINANCIAL MUNICIPALS GROUP,  
AND I-DEAL, LLC,** *Respondents.*

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**ON PETITION FOR A WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE FEDERAL CIRCUIT**

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**BRIEF FOR THE RESPONDENTS  
IN OPPOSITION**

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**Robert A. Long, Jr.**  
*Counsel of Record*  
**Richard L. Rainey**  
**Scott C. Weidenfeller**  
**James P. Sullivan**  
**Covington & Burling LLP**  
**1201 Pennsylvania Ave., NW**  
**Washington, D.C. 20004**  
**(202) 662-6000**

**February 2009**

*Counsel for Respondents*

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**QUESTION PRESENTED**

Whether the evidence presented at trial was sufficient to support a finding of joint infringement of a business method patent under 35 U.S.C. § 271(a).

## **RULE 29.6 CORPORATE DISCLOSURE STATEMENT**

Respondent Thomson Corporation, d/b/a Thomson Financial LLC and/or Thomson Financial Municipals Group, was renamed Thomson Reuters Corporation on April 17, 2008. Thomson Financial Municipals Group is a division of Thomson Global Markets Inc., a non-public corporation. Thomson Reuters Corporation is a Canadian company traded on the Toronto and New York Stock Exchanges. Under Thomson Reuters's dual listed company structure, Thomson Financial LLC and Thomson Global Markets Inc. are also subsidiaries of Thomson Reuters PLC, a United Kingdom company traded on the London Stock Exchange and NASDAQ.

Respondent i-Deal, LLC is a subsidiary of Ipreo Holdings LLC.

## TABLE OF CONTENTS

QUESTION PRESENTED.....	i
RULE 29.6 CORPORATE DISCLOSURE STATEMENT.....	ii
TABLE OF CONTENTS .....	iii
TABLE OF AUTHORITIES.....	iv
STATEMENT OF THE CASE .....	1
REASONS FOR DENYING THE PETITION.....	4
I. The Petition Does Not Present An Important Question Of Law That Should Be Settled By This Court.....	4
II. Petitioner Has Waived Its Retroactivity Argument.....	13
III. Petitioner Is Not Entitled To A GVR Order .....	15
CONCLUSION .....	17

## TABLE OF AUTHORITIES

	Page(s)
<b>CASES</b>	
<i>Aro Mfg. Co. v. Convertible Top Replacement Co.</i> , 365 U.S. 336 (1961).....	6, 8
<i>B.B. Chem. Co. v. Ellis</i> , 117 F.2d 829 (1st Cir. 1941), <i>aff'd</i> , 314 U.S. 495 .....	7
<i>BMC Res., Inc. v. Paymentech, L.P.</i> , 498 F.3d 1373 (Fed. Cir. 2007) .....	passim
<i>Boyle v. United Techs. Corp.</i> , 487 U.S. 500 (1988).....	15
<i>Bullock Elec. &amp; Mfg. Co. v. Westinghouse Elec. &amp; Mfg. Co.</i> , 129 F. 105 (6th Cir. 1904).....	8, 9
<i>Canton Bio-Med, Inc. v. Integrated Liner Techs., Inc.</i> , 216 F.3d 1367 (Fed. Cir. 2000) .....	5
<i>Chevron Oil Co. v. Huson</i> , 404 U.S. 97 (1971).....	14
<i>The Corn-Planter Patent</i> , 90 U.S. (23 Wall.) 181 (1874).....	5
<i>Cotton-Tie Co. v. Simmons</i> , 106 U.S. 89 (1882).....	7
<i>Crowell v. Baker Oil Tools, Inc.</i> , 143 F.2d 1003 (9th Cir. 1944).....	9
<i>Dawson Chem. Co. v. Rohm &amp; Haas Co.</i> , 448 U.S. 176 (1980).....	7, 9



<i>Deepsouth Packing Co. v. Laitram Corp.</i> , 406 U.S. 518 (1972) .....	6, 8
<i>E.I. DuPont de Nemours &amp; Co. v. Monsanto Co.</i> , 903 F. Supp. 680 (D. Del. 1995) .....	9
<i>eBay Inc. v. MercExchange, L.L.C.</i> , 547 U.S. 388 (2006) .....	13
<i>Faroudja Labs., Inc. v. Dwin Elecs., Inc.</i> , No. 97-20010, 1999 WL 111788 (N.D. Cal. 1999) .....	9
<i>Franks Casing Crew &amp; Rental Tools, Inc. v. Weatherford Int'l, Inc.</i> , 389 F.3d 1370 (Fed. Cir. 2004) .....	5
<i>Fuller v. Yentzer</i> , 94 U.S. 288 (1876) .....	5
<i>Goodyear Dental Vulcanite Co. v. Davis</i> , 102 U.S. 222 (1880) .....	5
<i>Harlow v. Fitzgerald</i> !, 457 U.S. 800 (1982) .....	15
<i>Harper v. Va. Dep't of Taxation</i> , 509 U.S. 86 (1993) .....	14
<i>Hewlett-Packard Co. v. Bausch &amp; Lomb Inc.</i> , 909 F.2d 1464 (Fed. Cir. 1990) .....	4
<i>James Heekin Co. v. Baker</i> , 138 F. 63 (8th Cir. 1905) .....	7
<i>KSR Int'l Co. v. Teleflex Inc.</i> , 550 U.S. 398 (2007) .....	3
<i>Landgraf v. USI Film Prods.</i> , 511 U.S. 244 (1994) .....	14

<i>Level 3 Commc'ns, LLC v. Limelight Networks, Inc.</i> , No. 2:07CV589 (E.D. Va. Dec. 29, 2008) .....	13
<i>Marley Mouldings Ltd. v. Mikron Indus., Inc.</i> , No. 02C2855, 2003 WL 1989640 (N.D. Ill. 2003) .....	9
<i>Mercoid Corp. v. Mid-Continent Inv. Co.</i> , 320 U.S. 661 (1944) .....	6
<i>Meyer v. Holley</i> , 537 U.S. 280 (2003) .....	11
<i>Mobil Oil Corp. v. Filtrrol Corp.</i> , 501 F.2d 282 (9th Cir. 1974) .....	9
<i>On Demand Mach. Corp. v. Ingram Indus., Inc.</i> , 442 F.3d 1331 (Fed. Cir. 2006). ....	10, 15
<i>Peerless Equip. Co. v. W.H. Miner, Inc.</i> , 93 F.2d 98 (7th Cir. 1938) .....	8, 9
<i>PharmaStem Therapeutics, Inc. v. ViaCell, Inc.</i> , 491 F.3d 1342 (Fed. Cir. 2007) .....	10, 12
<i>Prouty v. Ruggles</i> , 41 U.S. (16 Pet.) 336 (1842) .....	5
<i>Reynoldsville Casket Co. v. Hyde</i> , 514 U.S. 749 (1995) .....	14, 15
<i>Rowell v. Lindsay</i> , 113 U.S. 97 (1885) .....	5
<i>Royer v. Coupe</i> , 146 U.S. 524 (1892) .....	5
<i>Sprietsma v. Mercury Marine, Div. of Brunswick Corp.</i> , 537 U.S. 51 (2002) .....	13

<i>Thomson-Houston Elec. Co. v. Ohio</i> <i>Brass Co.</i> , 80 F. 712 (6th Cir. 1897) .....	7
<i>United Parcel Serv., Inc. v. Mitchell</i> , 451 U.S. 56 (1981) .....	14
<i>Wallace v. Holmes</i> , 29 F. Cas. 74 (C.C. Conn. 1871) (No. 17,100) .....	6, 8
<i>Warner-Jenkinson Co. v. Hilton Davis</i> <i>Chem. Co.</i> , 520 U.S. 17 (1997) .....	5
<i>Water-Meter Co. v. Desper</i> , 101 U.S. 332 (1879) .....	5

## STATUTES

35 U.S.C.	
§ 271 .....	4
§ 271(a) .....	2, 5, 7
§ 271(b) .....	6
§ 271(c) .....	6, 7

## OTHER AUTHORITIES

5 DONALD S. CHISUM, CHISUM ON PATENTS § 17.03 (2004) .....	6
Mark A. Lemley et al., <i>Divided</i> <i>Infringement Claims</i> , 33 AIPLA Q.J. 255 (2005) .....	13
Larry S. Nixon, <i>Preparing and</i> <i>Prosecuting a Patent to Win in</i> <i>Litigation</i> , 423 PLI/Pat 39 (1995) .....	13

## STATEMENT OF THE CASE

This case concerns allegations of “joint infringement” of a business method patent for conducting online municipal bond auctions. The decision of the United States Court of Appeals for the Federal Circuit that Respondents did not infringe the claims of Petitioner’s patent is correct and consistent with applicable precedent. No further review is warranted.

1. Respondents offer a system for conducting online municipal bond auctions called BidComp/Parity®. Pet. App. 19b. In a municipal bond auction, state and local government entities, known as issuers, sell bonds to raise public funds. *Id.* at 16b. Bidders in these auctions submit bids that include a price for the bonds and a related interest rate. *Id.* From the issuer’s perspective, the best bid is the one with the lowest “true interest cost” (“TIC”) to the issuer. *Id.* Bidders can use BidComp/Parity® to calculate TIC and submit bids, and issuers can use BidComp/Parity® to view those bids. *Id.* at 19b.

An auction using Respondents’ system involves steps performed by multiple parties. First, a bidder uses a computer to input data needed to calculate a bid. *Id.* at 19b. BidComp/Parity® uses the data to calculate a bid and stores the bid in a database. *Id.* The bidder views the calculated bid on its computer and decides whether to submit the bid in the auction, which usually can be accomplished either through BidComp/Parity® or through non-electronic means. *Id.* The bid is then communicated to the issuer, who can log onto BidComp/Parity® via the Internet and access bid information from the database. *Id.*

Respondents do not charge issuers a fee for the use of BidComp/Parity®. The issuer decides whether it will receive bids by electronic or non-electronic means, specifies the information that will be required for a bid, and selects the winner of the auction. In auctions where the issuer elects to receive both electronic and non-electronic bids, the bidder chooses how to submit its bid.

2. Petitioner sued Respondents in the United States District Court for the Western District of Pennsylvania for infringing U.S. Patent No. 6,161,099 ("the '099 patent"). The claims at issue in the '099 patent recite methods of performing original issuer municipal bond auctions over an electronic network using a web browser. Pet. App. 16b. Petitioner alleged that Respondents' use of BidComp/Parity® to conduct auctions directly infringed method claims of the '099 patent, in violation of 35 U.S.C. § 271(a). Pet. App. 20b.

The asserted claims of the '099 patent were drafted in such a way that no single party can perform every method step. *Id.* at 33b. For example, the first step calls for a bidder to enter data via a computer, while the middle steps require an auctioneer to calculate TIC and communicate bids to an issuer. *Id.* at 33b–34b. To prove that Respondents practiced every method step, Petitioner sought to rely on the joint infringement doctrine to attribute the actions of bidders and issuers to Respondents. *See id.* at 43d–44d (instructing jury that "some connection" between parties sufficed to establish joint infringement).

Following a trial, a jury found that the asserted claims were not invalid, that Respondents

willfully infringed, and that Petitioner was entitled to \$38,482,008 in lost profits damages for infringement. *Id.* at 45e–50e. Respondents moved for judgment as a matter of law or a new trial, arguing among other things that joint infringement doctrine did not support direct infringement liability and that the '099 patent claims were obvious. The district court denied the motion; awarded a total of \$84,624,637, including enhanced damages and prejudgment interest; and granted a permanent injunction against Respondents. *Id.* at 93g–94g.

3. The United States Court of Appeals for the Federal Circuit reversed in part and vacated in part. *Id.* at 37b. Relying on this Court's decision in *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007), the court of appeals held that six of the fourteen asserted claims of the '099 patent were invalid as obvious. Pet. App. 22b–33b. The court further held, as a matter of law, that Respondents did not infringe the remaining eight claims. *Id.* at 33b–37b.

The court of appeals considered the following joint infringement question: "The issue is thus whether the actions of at least the bidder and the auctioneer may be combined under the law so as to give rise to a finding of direct infringement by the auctioneer." *Id.* at 34b. Applying the standard set out in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007), the court of appeals concluded that Respondents were not liable for direct infringement because they had not exercised "control or direction" over bidders using BidComp/Parity®, and therefore had not performed every step of Petitioner's claimed method. Pet. App. 34b–37b.

## REASONS FOR DENYING THE PETITION

### I. The Petition Does Not Present An Important Question Of Law That Should Be Settled By This Court

Petitioner incorrectly contends that review by this Court is appropriate because “a United States court of appeals has decided an important question of federal law that has not been, but should be, settled by this Court.” Pet. 19 (quoting Sup. Ct. R. 10(c)). The court of appeals’ decision does not satisfy that standard. In attempting to demonstrate otherwise, Petitioner misstates the law.

1. Contrary to Petitioner’s contention, the court of appeals’ decision in this case does not “set aside more than a century of legal precedent.” Pet. i. In arguing that “[j]oint infringement’ had a century-and-a-half long pedigree,” *id.* at 6, Petitioner misstates the law by conflating joint infringement (which is a form of direct infringement) and contributory infringement (which is a form of indirect infringement). By ignoring the distinction between direct and indirect infringement, it is Petitioner who casts aside established precedent and the text of 35 U.S.C. § 271. See *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1468–69 (Fed. Cir. 1990) (describing the judicially created distinction between direct and indirect infringement, and its subsequent codification in the Patent Act of 1952).<sup>1</sup>

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<sup>1</sup> Although Petitioner asserts (Pet. 2) that this case involves the interpretation of 35 U.S.C. § 271(b), Petitioner abandoned all (continued...)



To prove direct infringement, the plaintiff must prove that a defendant has practiced every element of the claimed invention. See 35 U.S.C. § 271(a); *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 29, 40 (1997).<sup>2</sup> Where a method or process patent claim is in issue, liability for direct infringement thus requires proof that a single defendant performed every step of the claimed method. *Royer v. Coupe*, 146 U.S. 524, 530–31 (1892); *Goodyear Dental Vulcanite Co. v. Davis*, 102 U.S. 222, 230 (1880) (“The same result may be reached by different processes, each of them patentable, and one process is not infringed by the use of any number of its stages less than all of them.”); *Canton Bio-Med, Inc. v. Integrated Liner Techs., Inc.*, 216 F.3d 1367, 1370 (Fed. Cir. 2000) (“Infringement of process inventions is subject to the ‘all-elements rule’ whereby each of the claimed steps must be performed in an infringing process . . .”).

Joint infringement doctrine is a means of establishing direct infringement of a method patent. To take a simple example, suppose a method consists of three steps, two of which are performed by a

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indirect infringement claims at trial. Pet. App. 90g n.5. After invoking § 271(b), Pet. 2, Petitioner ignores that provision and relies on contributory infringement cases, including cases that concern § 271(c).

<sup>2</sup> See also *Rowell v. Lindsay*, 113 U.S. 97, 101–02 (1885); *Water-Meter Co. v. Desper*, 101 U.S. 332, 335 (1879); *Fuller v. Yentzer*, 94 U.S. 288, 297 (1876); *The Corn-Planter Patent*, 90 U.S. (23 Wall.) 181, 224 (1874); *Prouty v. Ruggles*, 41 U.S. (16 Pet.) 336, 341 (1842); *Franks Casing Crew & Rental Tools, Inc. v. Weatherford Int'l, Inc.*, 389 F.3d 1370, 1378 (Fed. Cir. 2004).

defendant and one of which is performed by a third party. If the behavior of the third party can be legally attributed to the defendant, then the defendant has directly infringed because the parties' combined actions satisfy the all-elements rule. Joint infringement doctrine thus defines the circumstances in which the law attributes third-party behavior to an accused infringer, such that the defendant is deemed to have performed the third step itself.

A defendant who does not satisfy the all-elements rule may nevertheless commit indirect infringement, but only if there has been an instance of direct infringement. *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526 (1972); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341 (1961); *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661, 677 (1944) (Frankfurter, J., dissenting). The Patent Act subdivides indirect infringement into inducement, 35 U.S.C. § 271(b), and contributory infringement, *id.* § 271(c). "Section 271(c) covers the usual situation in which contributory infringement arises: sale of a component especially designed for use in a patented combination or process." 5 DONALD S. CHISUM, CHISUM ON PATENTS § 17.03 (2004). Contributory infringement is traced to *Wallace v. Holmes*, 29 F. Cas. 74 (C.C. Conn. 1871) (No. 17,100), in which a defendant was held to have infringed an oil lamp patent by selling a burner that had no other suitable use, intending that the customer would assemble an infringing apparatus by adding a chimney. *Id.* at 79—

80.<sup>3</sup> Courts later found contributory infringement where a defendant sold an apparatus intended to enable direct infringement of a method patent. *E.g.*, *B.B. Chem. Co. v. Ellis*, 117 F.2d 829, 833–34 (1st Cir. 1941), *aff'd*, 314 U.S. 495; *cf.* 35 U.S.C. § 271(c) (proscribing contributory infringement where a person “offers to sell or sells . . . a material or apparatus for use in practicing a patented process”).

In short, there is a clear doctrinal distinction between joint infringement and contributory infringement: A joint infringer commits direct infringement under 35 U.S.C. § 271(a), while a contributory infringer commits indirect infringement under 35 U.S.C. § 271(c) by intentionally enabling another’s direct infringement.

Despite this clear distinction, Petitioner cites joint infringement and contributory infringement cases interchangeably, as if contributory infringement precedent governed this joint infringement case. Citing this Court’s decision in *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980), Petitioner contends that “[a]lthough *Dawson* involved contributory infringement under 35 U.S.C. § 271(c), this Court’s reasoning is equally applicable in the context of ‘joint infringement.’” Pet. 5; *see also id.* at 19 (claiming that the decision below “conflicts with the reasoning, if not the narrowest holding, of this Court’s precedent, notably *Dawson*”).

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<sup>3</sup> *See also Cotton-Tie Co. v. Simmons*, 106 U.S. 89, 94–95 (1882); *James Heekin Co. v. Baker*, 138 F. 63, 66 (8th Cir. 1905) (Van Devanter, J.); *Thomson-Houston Elec. Co. v. Ohio Brass Co.*, 80 F. 712, 720–22 (6th Cir. 1897) (Taft, J.).

*Chemical*”). Petitioner then rewrites history by suggesting that joint infringement arose from the leading contributory infringement case of *Wallace v. Holmes*. Pet. 6 (“‘Joint infringement’ had a century-and-a-half long pedigree . . . dating at least from the 1871 *Wallace* decision.”). Petitioner also invokes a pair of contributory infringement cases concerning method patents as though they are applicable to this joint infringement case. Pet. 6 (citing *Peerless Equip. Co. v. W.H. Miner, Inc.*, 93 F.2d 98 (7th Cir. 1938), and *Bullock Elec. & Mfg. Co. v. Westinghouse Elec. & Mfg. Co.*, 129 F. 105 (6th Cir. 1904)); see *Peerless*, 93 F.2d at 105 (finding contributory infringement); *Bullock*, 129 F. at 112 (finding no contributory infringement).

Petitioner’s reliance on these contributory infringement cases is misplaced. In the simple example given above, in which a defendant performs two steps of a method patent and a third party performs the final step, joint infringement doctrine can yield direct infringement liability by combining the actions of the parties and attributing performance of every step to the defendant. By contrast, absent a finding of joint infringement, the defendant cannot be liable for contributory infringement because there is no direct infringement. See *Deepsouth*, 406 U.S. at 526; *Aro*, 365 U.S. at 341; but see *Peerless*, 93 F.2d at 105. In these circumstances, where the patent owner can establish direct infringement only by attributing the actions of third parties to the alleged infringer, liability for contributory infringement is either unnecessary or unavailable.

Given the distinction between joint infringement and contributory infringement, and the inapplicability of contributory infringement cases such as *Dawson Chemical*, *Wallace*, *Peerless*, and *Bullock* to this joint infringement case, it is evident that the court of appeals' decision involves no departure from precedent. To the contrary, the "control or direction" standard announced in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373, 1378–81 (Fed. Cir. 2007), and applied in this case accords with decisions from other courts.<sup>4</sup>

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<sup>4</sup> See, e.g., *Mobil Oil Corp. v. Filtrol Corp.*, 501 F.2d 282, 291–92 (9th Cir. 1974) ("We question whether a method claim can be infringed when two separate entities perform different operations and neither has control of the other's activities."); *Crowell v. Baker Oil Tools, Inc.*, 143 F.2d 1003, 1004 (9th Cir. 1944) ("It is obvious that one may infringe a patent if he employ an agent for that purpose or have the offending articles manufactured for him by an independent contractor."); *Marley Mouldings Ltd. v. Mikron Indus., Inc.*, No. 02C2855, 2003 WL 1989640, at \*3 (N.D. Ill. 2003) (denying summary judgment of non-infringement and noting "a material issue of fact as to whether [defendant] has control over [third party's] activities with the performance of the first two steps of the process"); *Faroudja Labs., Inc. v. Dwin Elecs., Inc.*, No. 97-20010, 1999 WL 111788, at \*5–\*6 (N.D. Cal. 1999) (finding no infringement of patented method for converting motion picture film to high-quality television signal, where defendant did not perform first method step or "work[] in concert" with those who did); *E.I. DuPont de Nemours & Co. v. Monsanto Co.*, 903 F. Supp. 680, 734–35 (D. Del. 1995) (holding that defendant did not infringe patented process for making stain-resistant carpet fibers, where defendant performed first step and third party performed remaining steps).

2. Petitioner misstates the holding of the court of appeals in this case. Rather than proclaiming the creation of a “new ‘on behalf of standard” for joint infringement, Pet. 13, the Federal Circuit’s decision is a correct and fact-bound application of existing precedent.

The Federal Circuit squarely addressed joint infringement doctrine for the first time in *BMC Resources, Inc. v. Paymentech, L.P.*, 498 F.3d 1373 (Fed. Cir. 2007).<sup>5</sup> The Federal Circuit there held that performance of a method step by a third party is attributable to a defendant who exercises “control or direction” over the third party. *Id.* at 1380–81; *see also id.* at 1381 (“A party cannot avoid infringement, however, simply by contracting out steps of a patented process to another entity. In those cases, the party in control would be liable for direct infringement. It would be unfair indeed for the mastermind in such situations to escape liability.”).

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<sup>5</sup> Petitioner gives too much weight to dicta from *On Demand Machine Corp. v. Ingram Industries, Inc.*, 442 F.3d 1331 (Fed. Cir. 2006). Pet. 2–3, 6, 12, 14, 27, 32 (citing *On Demand*). As the Federal Circuit has explained, the joint infringement question was not “squarely presented” in *On Demand*. *See PharmaStem Therapeutics, Inc. v. ViaCell, Inc.*, 491 F.3d 1342, 1358 n.1 (Fed. Cir. 2007). Although Respondents disagree with Petitioner’s reading of *On Demand*, it is unnecessary here to parse the Federal Circuit’s dicta, which *BMC* held “did not change the traditional standard requiring a single party to perform all steps of a claimed method” to infringe directly. 498 F.3d at 1380; *see also id.* (“*On Demand* did not change this court’s precedent with regard to joint infringement.”).



The decision in this case — by a panel of the Federal Circuit that included two members of the *BMC* panel — simply applied *BMC*'s “control or direction” standard. Concluding that Respondents did not exercise control or direction over participants in online municipal bond auctions, the court of appeals found no joint infringement of the asserted claims of Petitioner's business method patent. Pet. App. 36b–37b.

Petitioner seeks to inflate the importance of this case by asserting that the court of appeals has supplanted the “control or direction” standard. Pet. 13. The language of the court of appeals' decision is to the contrary. The Federal Circuit's brief discussion of joint infringement repeats some variant of *BMC*'s “control or direction” language no fewer than four times. Pet. App. 35b–36b. Although Petitioner refers to “[t]he Federal Circuit's new ‘on behalf of standard,” Pet. 13, essentially identical language appears in *BMC*. 498 F.3d at 1379 (“In the context of patent infringement, a defendant cannot thus avoid liability for direct infringement by having someone else carry out one or more of the claimed steps *on its behalf.*”), (emphasis added). In short, the decision below involved nothing more than application of the *BMC* standard to a particular set of facts. No further review is warranted.<sup>6</sup>

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<sup>6</sup> The Federal Circuit referred to vicarious liability in *BMC*, 498 F.3d at 1379, and in this case, Pet. App. 36b. *Cf. Meyer v. Holley*, 537 U.S. 280, 285 (2003) (“[W]hen Congress creates a tort action, it legislates against a legal background of ordinary tort-related vicarious liability rules and consequently intends (continued...)”)



3. Petitioner is wrong to contend that confusion among district courts applying the Federal Circuit's joint infringement standard justifies review in this Court. Pet. 14–19, 20–21. Less than two years have passed since the Federal Circuit announced the “control or direction” standard for joint infringement. *See PharmaStem*, 491 F.3d at 1358 n.1 (noting that *BMC*, decided in 2007, was the first Federal Circuit case that “squarely presented” the joint infringement issue). To the extent that the Federal Circuit's standard gives rise to any confusion in the district courts, it is appropriate for the Federal Circuit to address that confusion in the first instance. As the Federal Circuit decides additional joint infringement cases and applies its “control or direction” standard to new facts, the operation of that standard will be clarified and any confusion in the lower courts will dissipate.

4. Petitioner's concern over the enforceability of business method patents is readily addressed through proper claim drafting. *BMC*, 498 F.3d at 1381 (“The concerns over a party avoiding infringement by arms-length cooperation can usually be offset by proper claim drafting. A patentee can usually structure a claim to capture infringement by

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its legislation to incorporate those rules.”). Petitioner argues that the phrase “vicarious liability” implies that a third party must perform every method step to find joint infringement. Pet. 14. In so arguing, Petitioner disregards clear language in the Federal Circuit's decision. *See* Pet. App. 34b (“The issue is thus whether the actions of at least the bidder and the auctioneer may be *combined* under the law so as to give rise to a finding of direct infringement by the auctioneer.”) (emphasis added).

a single party.”); *Level 3 Commc’ns, LLC v. Limelight Networks, Inc.*, No. 2:07CV589, slip op. at 11 (E.D. Va. Dec. 29, 2008) (“[T]he claims of the Farber patents are drafted in such a way as to allow infringement to be claimed on the basis of the actions of a single party, rendering jurisprudence regarding infringement by multiple parties in *Muniauction* and *BMC* inapposite.”). Patent practitioners have long recognized the need to draft claims so only a single entity performs them. See, e.g., Mark A. Lemley et al., *Divided Infringement Claims*, 33 AIPLA Q.J. 255, 272–75 (2005) (instructing practitioners to “Draft Unitary Claims”); Larry S. Nixon, *Preparing and Prosecuting a Patent to Win in Litigation*, 423 PLI/Pat 39, 53–54 (1995) (cautioning against “writ[ing] claims so that only a combination of *different* entities falls within the scope of any claim”). There is no reason for courts to distort joint infringement doctrine in order to salvage poorly drafted business method patents. Cf. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 397 (2006) (Kennedy, J., concurring) (noting the “potential vagueness and suspect validity of some of these [business method] patents”).

## II. Petitioner Has Waived Its Retroactivity Argument

Petitioner also argues that the *BMC* joint infringement standard should not have been applied retroactively in this case. Pet. 28–35. This argument has been waived because Petitioner did not raise it in its brief on the merits (or its rehearing petition, for that matter) in the court of appeals. See *Sprietsma v. Mercury Marine, Div. of Brunswick Corp.*, 537 U.S.

51, 56 n.4 (2002); *United Parcel Serv., Inc. v. Mitchell*, 451 U.S. 56, 60 n.2 (1981).

Moreover, Petitioner's retroactivity argument lacks merit. Once the Federal Circuit applied the "control or direction" standard in *BMC*, it was obliged to apply that standard in all pending cases. See *Harper v. Va. Dep't of Taxation*, 509 U.S. 86, 97 (1993) ("When this Court applies a rule of federal law to the parties before it, that rule is the controlling interpretation of federal law and must be given full retroactive effect in all cases still open on direct review and as to all events, regardless of whether such events predate or postdate our announcement of the rule."); *Reynoldsville Casket Co. v. Hyde*, 514 U.S. 749, 752 (1995) ("[W]hen (1) the Court decides a case and applies the (new) legal rule of that case to the parties before it, then (2) it and other courts must treat that same (new) legal rule as 'retroactive,' applying it, for example, to all pending cases, whether or not those cases involve predecision events.").<sup>7</sup>

Petitioner suggests that the usual retroactivity rules should not apply to patent decisions of the Federal Circuit, Pet. 31, but there is no authority for its proposal to divorce patent cases

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<sup>7</sup> Petitioner's invocation of *Chevron Oil Co. v. Huson*, 404 U.S. 97 (1971), Pet. 29–30, 35, is unavailing. See *Landgraf v. USI Film Prods.*, 511 U.S. 244, 279 n.32 (1994) ("While it was accurate in 1974 to say that a new rule announced in a judicial decision was only *presumptively* applicable to pending cases, we have since established a firm rule of retroactivity.") (citing *Huson* and *Harper*).

from “the fundamental rule of ‘retrospective operation’ that has governed ‘[j]udicial decisions . . . for near a thousand years.’” *Harper*, 509 U.S. at 94 (quoting *Kuhn v. Fairmont Coal Co.*, 215 U.S. 349, 372 (1910) (Holmes, J., dissenting)). Petitioner invokes this Court’s discussion of qualified immunity in *Reynoldsville Casket*,<sup>8</sup> Pet. 29, but fails to offer a meaningful connection between patent law and qualified immunity.<sup>9</sup>

### III. Petitioner Is Not Entitled To A GVR Order

Finally, Petitioner asks this Court to “grant a writ of certiorari and vacate and remand (“GVR”) this case to the Federal Circuit with instructions ordering a new trial limited to the specific issue of ‘joint infringement.’” Pet. 36. Petitioner did not ask the court of appeals for a remand in its brief on the merits or its petition for rehearing, and therefore this argument, like Petitioner’s retroactivity argument, has been waived. *See supra* Part II.

Petitioner’s GVR request is also foreclosed by this Court’s decision in *Boyle v. United Technologies Corp.*, 487 U.S. 500, 513 (1988) (holding that “[i]f the

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<sup>8</sup> 514 U.S. at 757–59 (explaining that retroactivity of a new constitutional rule will not be dispositive in an unlawful-arrest case where defendant police officer invokes qualified immunity, the new rule not having been “clearly established” at the time of the arrest, *see Harlow v. Fitzgerald*, 457 U.S. 800, 818 (1982)).

<sup>9</sup> Petitioner’s retroactivity argument is also self-defeating. It seeks to rely on *On Demand Machine Corp. v. Ingram Industries, Inc.*, 442 F.3d 1331 (Fed. Cir. 2006), Pet. 32, a decision that was not issued until almost five years after Petitioner filed this lawsuit. *See* Pet. App. 20b.

evidence presented in the first trial would not suffice, as a matter of law, to support a jury verdict under the properly formulated defense, judgment could properly be entered for the respondent at once, without a new trial"). Petitioner argues that the court of appeals should have remanded for a jury determination as to whether Respondents exerted "control or direction" over participants in online municipal bond auctions. Pet. 37. But the court of appeals held, as a matter of law, that Respondents do not exercise the "control or direction" needed to establish joint infringement: "In this case, Thomson neither performed every step of the claimed methods nor had another party perform steps on its behalf, and MuniAuction has identified no legal theory under which Thomson might be vicariously liable for the actions of the bidders. Therefore, Thomson does not infringe the asserted claims *as a matter of law*." Pet. App. 37b. (emphasis added). Accordingly, Petitioner is not entitled to a retrial.

The court of appeals' holding is correct. In a BidComp/Parity® auction, the issuer determines the content of a valid bid and the means by which it must be submitted. Where an issuer allows both electronic and non-electronic bid submission, bidders choose whether to submit bids via Respondents' web-based system. Respondents do not exert "control or direction" over bidders or issuers in their performance of these and other method steps. It would be a curious auction indeed in which the auctioneer controlled the behavior of both buyers and sellers.

The evidence recounted by Petitioner, Pet. 39–41, fails to establish control. While Respondents

control their own BidComp/Parity® software, *see id.*, this is not “control” in the legally relevant sense. Pet. App. 36b (“That Thomson controls access to its system and instructs bidders on its use is not sufficient to incur liability for direct infringement.”). The contracts between Respondents, bidders, and issuers, *see* Pet. 41, show only “‘arms-length cooperation’ [that] will not give rise to direct infringement by any party.” Pet. App. 35b.

### CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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